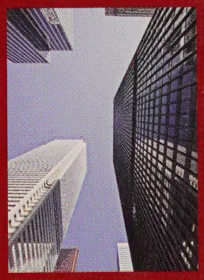
Ontario

2010 ONTARIO ECONOMIC OUTLOOK AND FISCAL REVIEW



THE HONOURABLE **DWIGHT DUNCAN**
Minister of Finance

BACKGROUND PAPERS

Ontario

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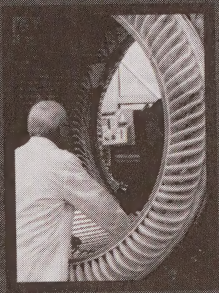

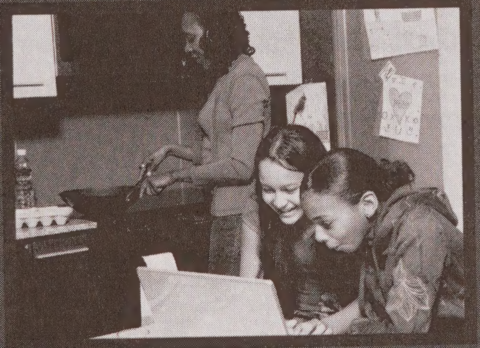

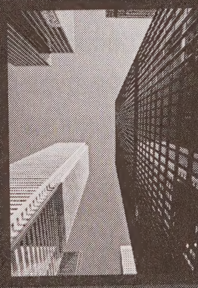

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BACKGROUND PAPERS

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ISSN 1483-5967 (Print)
ISSN 1496-2829 (PDF/HTML)

Ce document est disponible en français sous le titre :
Perspectives économiques et revue financière de l'Ontario de 2010, Documents d'information

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FOREWORD

Ontario's economy is emerging from the global recession. However, Ontario families are still feeling pinched financially. Many are anxious and uncertain about their ability to make ends meet.

In addition to the lingering impacts of the global recession, Ontarians are feeling the effects of the costs associated with rebuilding and modernizing the province. Over previous decades of neglect, Ontario's electricity system was left to crumble, its schools and hospitals left to age, its tax system left uncompetitive and its retirement income system left dormant.

Over the past seven years, Ontarians have been working together to repair the neglect and rebuild the province. Since 2003, Ontario's schools, colleges, universities, hospitals, roads and bridges have been significantly improved.

The government has also modernized Ontario's tax system, made major investments in the electricity system and introduced pension reform. While these measures will improve the economy and help secure Ontarians' future over the longer term, families are struggling right now with higher costs and concerns about their retirement. They need some help today.

The *2010 Ontario Economic Outlook and Fiscal Review* introduces measures to help hard-working Ontario families and businesses. The government is taking action to help Ontarians who are feeling the pinch of the rising cost of living, especially increasing electricity prices. The *2010 Ontario Economic Outlook and Fiscal Review* also outlines the Open Ontario plan to create new jobs, boost long-term economic growth and protect the progress Ontarians have made in their schools and hospitals. It updates Ontario's economic outlook and the government's prudent and responsible plan to reduce borrowing, cut spending and eliminate the deficit caused by the global recession.

The McGuinty government is taking further action to help mitigate the costs of clean, modern energy for Ontario families. It is proposing direct relief through a new Ontario Clean Energy Benefit (OCEB). For eligible residential, farm and small business consumers, the OCEB would provide a benefit equal to 10 per cent of the total cost of electricity on their bills including tax. Due to the length of time required to amend electricity bills, these price adjustments would appear no later than May 2011, and they would be retroactive to January 1, 2011.

Ontario's Tax Plan for Jobs and Growth

Ontarians deserve more, and higher-paying, jobs. Through Ontario's Tax Plan for Jobs and Growth, the McGuinty government has modernized the tax system to create the best possible climate to attract investment and encourage businesses to create Ontario jobs in the new global economy. These changes will help create almost 600,000 jobs within 10 years.

Ontario's Tax Plan for Jobs and Growth also cut income taxes for 93 per cent of income tax payers and enhanced sales and property tax credits for low- to middle-income families and individuals.

Tax relief for Ontario families makes their lives a little easier. The McGuinty government is providing eligible Ontario residents with three Sales Tax Transition Benefit payments totalling up to $300 for single people and up to $1,000 for families and single parents. The first payment was made in June 2010 and the second and third payments will be made in December 2010 and June 2011.

Managing Responsibly

Before the global recession, growth in spending on programs and services by the McGuinty government did not exceed growth in revenues. The government eliminated the $5.5 billion fiscal deficit it inherited and posted three consecutive balanced budgets.

When the global recession occurred, Ontario was hit harder than other provinces due to its manufacturing and forestry sectors. Government revenues declined steeply.

During the recession, the McGuinty government chose to lessen the impact on Ontarians through short-term stimulus investments to help create and preserve jobs. According to a March 2010 report by the Conference Board of Canada, Ontario's increased infrastructure spending preserved about 70,000 jobs in the province in 2009 and added almost a full percentage point to Ontario economic growth that year.

The government also made a decision to protect education, health care and other crucial public services. As a result, Ontario, like many other jurisdictions in Canada and around the world, has a fiscal deficit.

Taxpayers want to know that the government is using their money wisely. Chapter 1: Section B, *Managing Responsibly*, outlines the measures the government is taking to manage spending, reduce costs and pay off debt.

Examples of the government's measures to manage spending include cutting the prices of most generic drugs under the Ontario Public Drug Program in half and restraining compensation in the Ontario Public Service and broader public sector.

Modernizing Ontario's Electronic Land Registration System

The government's fiscal situation is much like that of Ontario households, which often need to carry more debt to make ends meet during difficult economic times. Managing responsibly — for households and governments — means striking the right balance among necessary investments, managing spending and paying off debt.

The government has negotiated the principal terms of a proposed agreement to renew its long-standing business partnership with Teranet Inc. by extending Teranet's exclusive licences to provide electronic land registration and writs services in Ontario. Unlike transactions by the previous government, such as the sale of Highway 407, this proposed agreement contains significant protection for consumers. For example, it would continue Provincial control over fees for statutory land registration and writs services. Under the proposed agreement, all Teranet fees for these services would be frozen for five years. After that, certain fees would be increased to equalize fees for searches done in land registration offices with those done remotely. Certain fees would increase by only half of the inflation rate, meaning they would decline in real terms over time.

The government would use the $1 billion payment from this proposed agreement to reduce Ontario's debt. Using this payment to reduce debt is the responsible thing to do. One clear benefit of this debt reduction is that it would decrease Ontario's ongoing borrowing requirements and would save up to $50 million in annual interest costs, or $250 million over five years. Additionally, under this proposed agreement, Ontario would receive annual royalty payments, beginning in 2017. These royalties are expected to be $50 million in 2017–18 and to grow in future years.

Economic and Fiscal Outlook

Chapter 2: *Ontario's Economic Outlook* provides an update on the state of Ontario's recovering economy. While key economic indicators have improved from lows during the recession, Ontario's families and businesses are still feeling the effects of the global financial and economic crisis. Despite the severity of the recession's impact on employment, 75 per cent of the jobs lost have been recovered.

While economic forecasts for 2010 have improved compared to those in the *2010 Budget*, they have weakened for subsequent years, largely due to weaker U.S. growth. The Ministry of Finance is projecting real gross domestic product (GDP) growth of 3.2 per cent in 2010, 2.2 per cent in 2011, 2.5 per cent in 2012 and 2.7 per cent in 2013. Data tables on the Ontario economy are available at www.fin.gov.on.ca/en/budget/fallstatement/2010/ecotables.html

Ontario's 2009–10 deficit was $19.3 billion. By continuing its prudent approach to fiscal management, the government is on track for a deficit of $18.7 billion in 2010–11, which is almost 25 per cent lower than the $24.7 billion deficit projected a year ago for 2009–10. The government has laid out a realistic and responsible plan to cut the deficit in half within five years of its highest point and to eliminate it in eight years. Chapter 3: *Fiscal Outlook* provides additional details on Ontario's finances.

The total funding requirement for the Province's 2010–11 fiscal year has decreased by $2 billion since the *2010 Budget*, due to the $1 billion decrease in the provincial deficit and the anticipated $1 billion payment to the Province from the proposed Teranet agreement. Ontario's interest on debt expenses is $246 million lower than projected in the *2010 Budget*. Chapter 4: *Borrowing and Debt Management* summarizes Ontario's borrowing and debt activity.

Tax and Pension Modernization for Ontarians

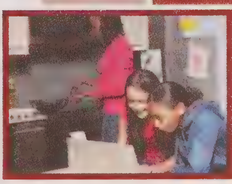
Chapter 5: *Tax and Pension Modernization* provides details of Ontario's Tax Plan for Jobs and Growth, including measures to support people and businesses. Ontario is providing several tax credits that put money back into the pockets of those who need it most. It also describes the government's actions to improve retirement income security.

Participating in the 2011 Pre-Budget Consultations

The McGuinty government encourages individuals, organizations and other partners to share their views on Ontario's economy and finances. Chapter 6: *How to Participate in the 2011 Pre-Budget Consultations* invites Ontarians to suggest what more the government can do to create jobs and improve services for people, while eliminating the deficit.

Chapter 1

Open Ontario



Section A: Helping Ontario Families

HIGHLIGHTS

Helping Electricity Consumers

- ☑ The proposed new Ontario Clean Energy Benefit would reduce the electricity bills of eligible residential, farm and small business consumers by 10 per cent a month for the next five years, effective January 1, 2011.

- ☑ The Northern Ontario Energy Credit is providing up to $200 per family and up to $130 for single people to help with home energy costs. It will be available to more than half of all northerners.

Tax Relief for People and Businesses

- ☑ The Tax Plan for Jobs and Growth will help create nearly 600,000 net new jobs within 10 years.
- ☑ Personal Income Tax cuts for 93 per cent of income tax payers, effective January 1, 2010.
- ☑ Up to $50 per child per year (up to $100 per child with a disability) proposed to help parents with the cost of enrolling their children in activities that encourage them to be healthy and active.
- ☑ Up to $1,040 in annual tax relief for a qualifying family of four through the Ontario Sales Tax Credit.
- ☑ The proposed Ontario Energy and Property Tax Credit would provide up to $900 in annual tax relief for a non-senior family or single person and up to $1,025 for seniors, benefiting about 2.8 million low- to middle-income individuals and families.
- ☑ Up to $1,000 per family or $300 per single person through the Ontario Sales Tax Transition Benefit to help Ontarians adjust to the Harmonized Sales Tax. The second of up to three payments will be delivered in December 2010.

Infrastructure Investments

- ☑ Investments over 2009–10 and 2010–11 for roads, bridges, public transit and other infrastructure are creating and preserving jobs and increasing Ontario's long-term competitiveness.

Investing in Knowledge and Skills

- ☑ 20,000 new student spaces in colleges and universities in 2010–11.

- ☑ 200,000 more postsecondary students and apprentices will be learning this year compared to 2002–03.

- ☑ More than one million Ontarians are receiving skills training and employment assistance annually. The government committed approximately $1.6 billion to jobs and skills training through Employment Ontario in each of 2009–10 and 2010–11, with a special focus on workers affected by the economic recession.

- ☑ Full-day kindergarten is available in nearly 600 schools for up to 35,000 students. In September 2011, full-day kindergarten will be available in 200 more schools, meaning up to 50,000 children will be benefiting from the program.

- ☑ In 2009–10, over 50,000 more students in Grades 3, 6 and 9 met or exceeded the provincial standard in reading, writing and mathematics when compared to 2002–03 results.

- ☑ High school graduation rates increased from 68 per cent in 2003–04 to 79 per cent in 2008–09. That means more than 52,500 additional students have graduated since 2003–04.

Securing Our Retirement Future

- ☑ Advocating for a stronger retirement income system for working Ontarians through a modest, fully funded and gradual enhancement to the Canada Pension Plan (CPP), and pension innovation to provide new, lower-cost savings options.

- ☑ Introduced the most significant reforms to Ontario's pension laws in over two decades.

- ☑ Continuing to consult widely with Ontarians on how to make saving for retirement easier, more affordable and more secure.

Protecting Consumers Through Strong Financial Regulation

- ☑ Proposed amendments to the Ontario *Securities Act* to promote fair and efficient capital markets, enhance investor protection and help Canada deliver on its international commitments.

- ☑ Working with federal, provincial and territorial governments to establish a Canadian Securities Regulator.

Supporting Ontario Prosperity and Jobs

- ☑ Ontario was the only sub-national jurisdiction in North America to invest in the long-term viability and competitiveness of the auto industry, while protecting workers and communities. For the first 10 months of 2010, total vehicle production in Ontario rose by 46 per cent compared to the same period last year and workers are being rehired.

- ☑ Supporting jobs and growth in the north through Ring of Fire investments and the *Far North Act, 2010*.

- ☑ Provided support to the Toronto Financial Services Alliance to help implement a government–industry plan to grow Ontario's financial services sector.

- ☑ The Global Risk Institute (GRi), comprising industry leaders, regulators and members of the academic community, was announced in September 2010. This new institute will build on Toronto's status as a premier financial services centre.

HELPING ELECTRICITY CONSUMERS

The Plan:

The McGuinty government is committed to building the electricity system the people of Ontario need and deserve to power their homes and businesses — a clean, modern and reliable system with stable prices.

For a decade, Ontario made little investment in new supply and transmission infrastructure. By 2003, Ontarians did not know if the lights would stay on. The province had just endured the largest blackout in North American history. The previous government's reliance on five coal plants meant that about 25 per cent of Ontario's electricity came from dirty coal. There was no plan for conservation, and no plan for supply to keep up with demand. Energy infrastructure was under stress and in decline. Instead of adding generation capacity, the electricity system lost a net 1,800 megawatts (MW) of power capacity — the equivalent of Niagara Falls running dry. Moreover, Ontario had to import U.S. coal-generated electricity just to keep the lights on. The government had even set up emergency generators for fear of brownouts. A brief deregulated market experiment in 2002 saw spot market energy prices spike an average of about 30 per cent over seven months. That prompted the government of the day to freeze rates at an artificially low level.

The Results:

As a result of necessary investments in new sustainable generation made by this government, Ontarians can count on a reliable electricity system that ensures the lights stay on. Since 2003, more than 8,000 MW of new, clean power have come online, making up more than 20 per cent of current capacity. Ontario Power Generation completed the refurbishment of Pickering A Unit 1 and launched significant hydroelectric and other renewable and clean energy projects. The Niagara tunnel project, using the largest hard-rock tunnelling machine in the world at the time, will increase the output of power from Niagara Falls and produce enough extra annual energy to power as many as 160,000 homes. The Lower Mattagami hydroelectric project will increase Ontario's supply of clean, renewable power by about 440 MW, powering over 300,000 homes. Furthermore, Bruce Power is currently working to return two units of Bruce A to operation, with a total of 1,500 MW of additional baseload capacity.

The Province's transmission and distribution company, Hydro One, has also invested $7 billion in the improvement of some 5,000 kilometres of its transmission and distribution lines, along with other system improvements. Hydro One's average annual investment has been double what it was from 1996 to 2003. Local distribution companies in the province have also invested in the modernization of Ontario's distribution system, and are working to develop a smart grid to increase the reliability of electricity delivered to homes and businesses. By using communications technology, the smart grid will make more efficient use of existing infrastructure, improve conservation, and allow better integration of small renewable projects.

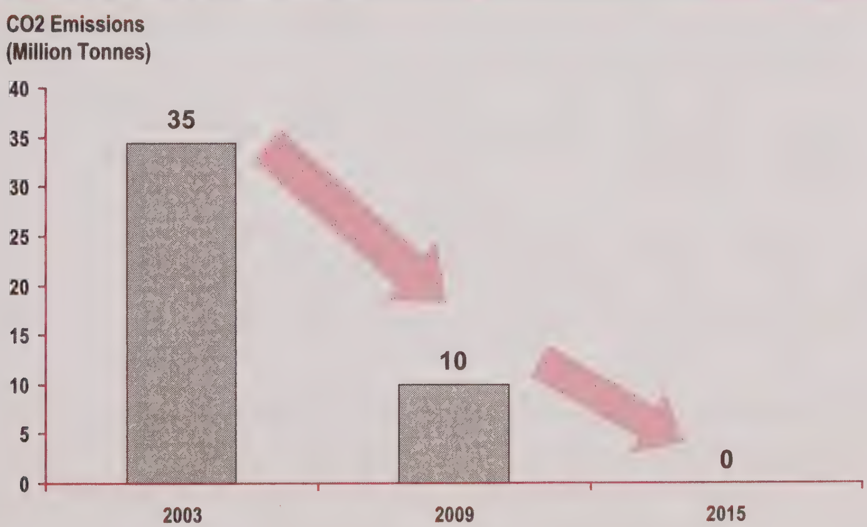
These investments have also allowed the Province to pursue the elimination of coal-generated electricity, replacing it with cleaner sources such as wind, solar and bio-energy. In 2005, the government permanently shut down the four-unit Lakeview coal plant in Mississauga. In October 2010, four more coal-fired generating units were permanently shut down. The Province is on track to phase out dirty coal-fired electricity generation in 2014, the largest initiative of its kind in North America in that timeframe. This will be equivalent to taking seven million cars off the road and will improve air quality while reducing health care costs.

Health Risks of Coal-Fired Generation

A 2005 study by DSS Management Consultants Inc. and RWDI Air Inc., commissioned by the Ministry of Energy, estimated that coal-fired generation was responsible for about $3 billion in annual health damages in Ontario including premature deaths, hospital admissions and various illnesses.

Coal-Fired Emissions Down More Than 70 Per Cent Since 2003

Chart 1



Source: Ontario Power Generation *Sustainable Development Report*, 2003 and 2009.

Long-Term Energy Plan

When this government took office in 2003, it inherited an electricity system that had no long-term plan. Through the *Electricity Restructuring Act, 2004*, the government created and mandated the Ontario Power Authority (OPA) to use a formal 20-year planning process to help forecast and meet the province's electricity needs. Under this process, the long-term plan was designed to be updated every three years to incorporate developments in technology, in the supply of renewables, and changes to demand.

The OPA's first long-term plan, known as the Integrated Power System Plan, was submitted in 2007. The Plan was based on a supply-mix directive that the OPA received from the government in 2006. It set the stage for moving Ontario forward to a more sustainable supply mix and reliable system.

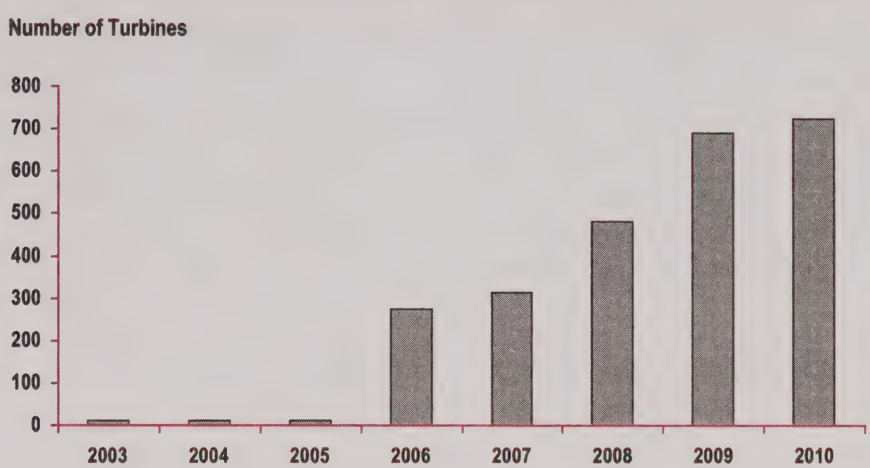
Building on these efforts, the government passed the *Green Energy and Green Economy Act, 2009* (GEA) as part of its plan for Ontario to become a leading economy in clean and sustainable technologies. The GEA will help boost investments in clean, renewable energy and conservation, securing long-term economic development and job creation in Ontario.

The GEA was a groundbreaking and significant accomplishment. It is:

- ☑ sparking growth in clean and renewable sources of energy such as wind, solar, hydro, biomass and biogas in Ontario;
- ☑ creating incentives to increase energy efficiency through a series of conservation measures;
- ☑ encouraging the development of a leading clean energy economy;
- ☑ setting the stage for smart grid implementation in Ontario; and
- ☑ creating 50,000 jobs for Ontarians in its first three years.

Since 2003, new renewable energy projects already in place or under construction represent a total investment of approximately $8.1 billion and have brought more than 1,500 MW of new renewable energy online. In 2003, Ontario had only 10 wind turbines; now there are more than 700.

Installed Number of Wind Turbines Since 2003 — Chart 2



Sources: Ontario Power Authority and Canadian Wind Energy Association.

Clean Energy Investments

- ☑ The Sarnia Solar Project, with 80 MW online as of October 2010, is the world's largest operating solar photovoltaic electricity generation facility, producing enough energy to power 12,000 homes. Construction of the project created about 800 jobs.
- ☑ The 199.5 MW Melancthon EcoPower Centre near Shelburne reached its current size in November 2008 and created a total of 500 jobs during construction of its two phases. The 197.8 MW Wolfe Island Wind Farm began commercial operation in June 2009 and created 250 jobs during construction. These are Canada's two largest wind projects.
- ☑ In August 2010, the government announced that Ontario will be turning off coal and switching on biomass at the Atikokan Generation Station. About 200 construction jobs are being created at this project.
- ☑ The 84 MW East Windsor Cogeneration Centre began commercial operation in November 2009. In addition to electricity generation, the facility provides steam to power Ford's Windsor operations. Construction of the project created about 150 jobs.
- ☑ The transmission project from the Bruce nuclear generating stations to Milton is the largest expansion of Ontario's transmission system in 20 years. About 500 direct jobs are related to this project. It will provide Ontario's electricity grid with the capacity to transmit more than 3,000 MW of power from clean and renewable energy sources.
- ☑ The Lower Mattagami project is the largest northern hydroelectric generating construction project in 40 years. This project will increase clean renewable power by approximately 440 MW. During the five years of construction, approximately 600 people will work on the project annually. Ontario Power Generation's partner in the project is the Moose Cree First Nation.
- ☑ The 642 MW Halton Hills Generating Station began commercial operation on October 28, 2010. The high-efficiency combined cycle plant uses state-of-the-art low-emissions technology to meet high environmental standards. The project created about 800 construction jobs at its peak.

With this foundation in place, it is time to review Ontario's long-term energy plan. The Ministry of Energy will be releasing an updated Long-Term Energy Plan and a new directive to the OPA shortly.

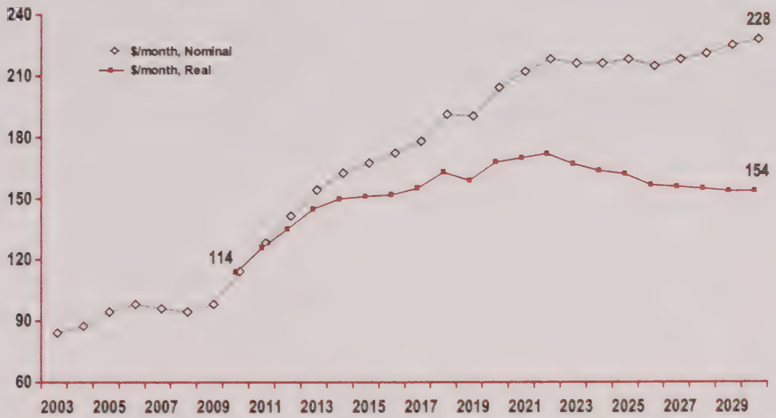
The 2010 Long-Term Energy Plan will provide the roadmap for an updated supply mix, new investments in transmission and distribution, and stable and predictable industrial and consumer electricity pricing.

Energy Prices

In order to have a clean, modern system that includes a significant proportion of renewables, ensures reliability and creates jobs, investments in Ontario's electricity system will need to continue. While absolutely necessary, these investments are increasing electricity costs. Based on the Ministry of Energy projections from the forthcoming Long-Term Energy Plan, prices over the next 20 years are expected to increase by about 3.5 per cent per year.

Residential Monthly Bill Projections, 2010 to 2030 — Chart 3

Typical 800 kWh Monthly Consumption
All-In, After-Tax, $/Month



Notes: Nominal "projected cost including inflation." Real "in 2010 dollars."
Source: Ontario Ministry of Energy, Long-Term Energy Plan, 2010.

Over the next five years, however, residential electricity prices are expected to rise by 46 per cent, which is an average annual rate of about 7.9 per cent. This increase will be due to two factors: upgrading and modernizing Ontario's existing capacity in nuclear and natural gas generation, transmission and distribution (44 per cent); and the investment in new clean, renewable energy generation (56 per cent).

Continued investments in transmission, conservation and supply are needed for a system that provides more efficient and reliable electricity to consumers whenever they need it and does not pollute Ontario's air or negatively affect the health of citizens and future generations.

After five years, Ontario will have largely completed the transition to a cleaner, more reliable system due to the replacement of coal-fired generation and new renewable generation under the GEA. The GEA investments will create more than 50,000 jobs. Once these investments have been made, the price increases are expected to moderate.

On October 1, 2009, the Ontario Power Authority (OPA) launched North America's first comprehensive Feed-in Tariff Program, which pays clean renewable energy generators for the electricity they produce. It is designed to encourage the development of renewable energy projects by a diverse range of small-and large-scale generators. Through this new program, the OPA has awarded contracts for 2,500 MW of renewable energy, which will create 20,000 direct and indirect jobs.

Ontario families and businesses are now paying the true cost of electricity. Rising electricity prices are having a significant impact on consumers, who are asking for help with the cost of clean, modern energy.

Every little bit of assistance helps during lean times and there are several measures in place or proposed to help families cope with rising electricity costs.

Helping Ontario Families with Energy Costs

- ☑ The energy component of the proposed Ontario Energy and Property Tax Credit would put up to $200 per year back into the pockets of low- to middle-income families and seniors to help offset the HST on energy, for a total of $1.2 billion over three years.
- ☑ The Northern Ontario Energy Credit will provide an annual credit of up to $130 for a single person and up to $200 for low- to middle-income families and single people in the north who own or rent their homes, saving Ontarians a total of $110 million over three years.

Ontario Clean Energy Benefit

Through the *2010 Ontario Economic Outlook and Fiscal Review*, the government is taking action today to help Ontarians who are feeling the pinch of rising costs and electricity prices. The Ontario government is proposing direct relief through a new Ontario Clean Energy Benefit (OCEB).

For eligible consumers, the proposed OCEB would provide a benefit equal to 10 per cent of the total cost of electricity on their bills including tax, effective January 1, 2011. Due to the length of time required to amend bills, these price adjustments would appear on electricity bills no later than May 2011, and would be retroactive to January 1, 2011.

Eligible consumers include residential, farm, small business and other small users. The proposed OCEB would help over four million residential consumers and over 400,000 small businesses, farms and other consumers with the transition to a reliable and cleaner electricity system as more investment in transmission and supply capacity is brought online to support the province.

The following table provides examples of the impact the proposed OCEB would have on monthly electricity bills.

Benefits for Eligible Customers — Table 1

Customer (Monthly Consumption)	Current Estimated Monthly Bill	Estimated Bill after Ontario Clean Energy Benefit	Monthly Benefit* (10%)	Yearly Benefit* (10%)
Typical Residential 800 kWh	$128	$115.20	$12.80	$153.60
Small Business 10,000 kWh	$1,430	$1,287	$143	$1,716
Farm 12,000 kWh	$1,710	$1,539	$171	$2,052

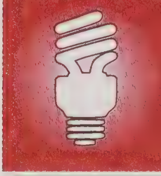
* Typical 2011 monthly benefit for a consumer. Benefit amount will vary based on actual price, consumption and location.
Source: Ontario Ministry of Energy.

In 2010–11, the estimated cost of the proposed OCEB is $300 million, with an estimated full-year cost of $1.1 billion next year. These costs are accommodated within the fiscal plan as a result of the government's prudent approach to managing its finances.

The Province's revenues from its ownership of Ontario Power Generation and Hydro One are projected to be approximately the same as the cost of the OCEB.

Providing the 10 per cent OCEB to Ontarians is a responsible way of helping Ontario families through the transition to a cleaner electricity system. The OCEB would help residential and small business consumers over the next five years as the grid is modernized and coal generation is eliminated. The government is introducing legislation to implement the proposed OCEB.

Your Electricity Bill



Service Address: Customer name
Address
City, Ontario

Monthly Statement

Account Number 000 000 000 000 0000 0

Statement Date June 30, 2011

Meter Number 0000000

Electricity Used This Billing Period

Metered usage in kilowatt-hours = 800 kWh

Your Electricity Charges		
Electricity		
	On-Peak: 153.60 kWh @ 9.900¢	$15.21
	Mid-Peak: 218.40 kWh @ 8.100¢	$17.69
	Off-Peak: 428.00 kWh @ 5.100¢	$21.83
Delivery		$46.90
Regulatory		$6.04
Debt Retirement Charge		$5.60
Your Total Electricity Charges		$113.27
HST	Federal $5.67 Provincial $9.06	$14.73
	Subtotal	$128.00
Adjustments		
	Ontario Clean Energy Benefit (-10%)	-$12.80 CR
Total Amount		**$115.20**

Sample bill for illustrative purposes only. Other adjustments may apply.

In addition to the OCEB, the government will also outline, through its Long-Term Energy Plan, a strategy that will carefully balance cleaner generation, job creation, reliability and cost.

Instead of a system that was polluting, unreliable and in decline with unstable pricing, Ontarians will have a North American–leading clean energy system that keeps the lights on for generations to come, creates jobs for Ontario families and ensures the air they breathe is cleaner.

TAX RELIEF FOR PEOPLE AND BUSINESSES

Supports for Low- to Middle-Income Ontarians

The Plan:

Ontario's Tax Plan for Jobs and Growth and additional tax measures announced since the *2009 Budget* would provide tax relief of $12 billion for people over three years.

The Results:

Permanent cuts to personal income taxes mean that, for 93 per cent of Ontario income tax payers, taxes will be reduced by $200, on average, for the 2010 tax year. In addition, Ontario offers several tax credits that put money back into the pockets of those who need it most. Tax relief provided through tax credits has been significantly enhanced to provide more relief to more people.

- ☑ The Ontario Sales Tax Credit provides up to $260 per person in annual tax relief or up to $1,040 for an eligible family of four.
- ☑ The proposed Ontario Energy and Property Tax Credit would provide up to $900 annually for non-seniors in relief for sales tax on energy and for property tax, or up to $1,025 for seniors.
- ☑ The new Northern Ontario Energy Credit provides up to $130 annually for a single person and up to $200 annually for families (including single parents).

Starting with these tax credits, the government is moving towards providing benefits on a more timely and regular basis. People used to receive the combined property and sales tax credits after filing a tax return; that is, once a year in a lump-sum payment. Ontarians began to receive quarterly instalments of the new Ontario Sales Tax Credit in August 2010. The Northern Ontario Energy Credit and proposed Ontario Energy and Property Tax Credit would also begin to be paid four times a year, starting in July 2011. The government will continue to work to better align the timing of Ontario's tax credits and other benefits with the day-to-day expenses that people face.

These new tax credits would assist low- to middle-income people, and build upon this government's other initiatives, including the Ontario Child Benefit, introduced in 2007, the Ontario Senior Homeowners' Property Tax Grant, introduced in 2009, and the proposed Children's Activity Tax Credit.

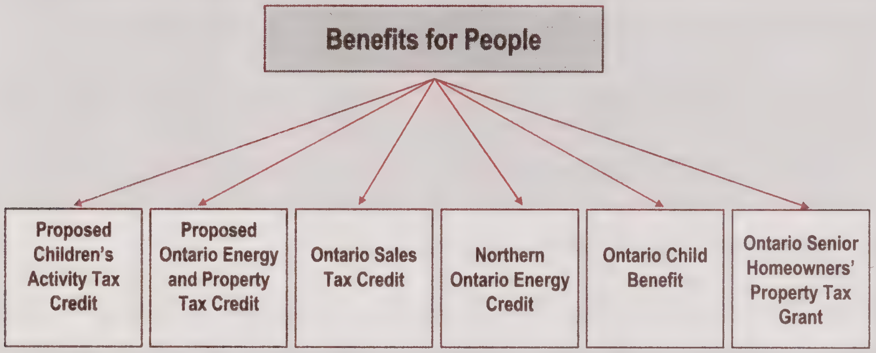
A new web portal will soon make it easier for people to find out what tax credits they can claim.

Children's Activity Tax Credit

A new Children's Activity Tax Credit has been proposed to help parents with the cost of enrolling their children in activities that encourage them to be healthy and active. This would be the only tax credit in Canada that provides for a broad range of children's activities. Parents would be able to claim up to $500 of eligible expenses and receive up to $50 per child per year (up to $100 per child with a disability) towards the cost of these activities. Parents would be able to claim this credit in addition to the federal children's fitness tax credit.

The federal children's fitness tax credit is a non-refundable tax credit — it reduces the amount of income tax a person pays. People who do not earn enough to pay income tax do not benefit from non-refundable tax credits. Ontario's proposed credit would be refundable so people would get the credit even if they pay no income tax. This would allow more lower-income families to benefit.

Key Ontario Tax-Related Benefits for People Chart 4



Opening Ontario to Jobs and Growth

The Plan:

In addition to helping families through tax relief and the Ontario Clean Energy Benefit, the government is making Ontario a more attractive place for businesses to invest and create jobs. Over three years, the Ontario Tax Plan for Jobs and Growth is providing more than $4.8 billion in tax relief for businesses.

The Results:

The Tax Plan for Jobs and Growth announced in the *2009 Budget* replaced the Retail Sales Tax (RST) with the Harmonized Sales Tax (HST) on July 1, 2010, and delivers both permanent and temporary tax relief to people and businesses. See Chapter 5: *Tax and Pension Modernization* for additional details on the tax relief measures for people and businesses.

The replacement of the RST with the HST has reduced operating costs for businesses in Ontario. The RST applied to many business purchases and, as a result, multiple layers of sales tax were built into the cost of these purchases. The HST removes the sales tax on business inputs, providing a cost saving to businesses. The HST also simplifies tax compliance for businesses by streamlining tax administration and eliminating over 5,000 pages of outdated rules, regulations and operating procedures. The move to a single tax administration with one set of forms, one payment and one point of contact for audits, appeals and taxpayer services will save businesses more than $500 million a year.

These cost savings allow businesses to lower their prices for Ontario consumers and to better compete for more sales abroad. These changes, combined with other tax relief for businesses, encourage new investment and create jobs.

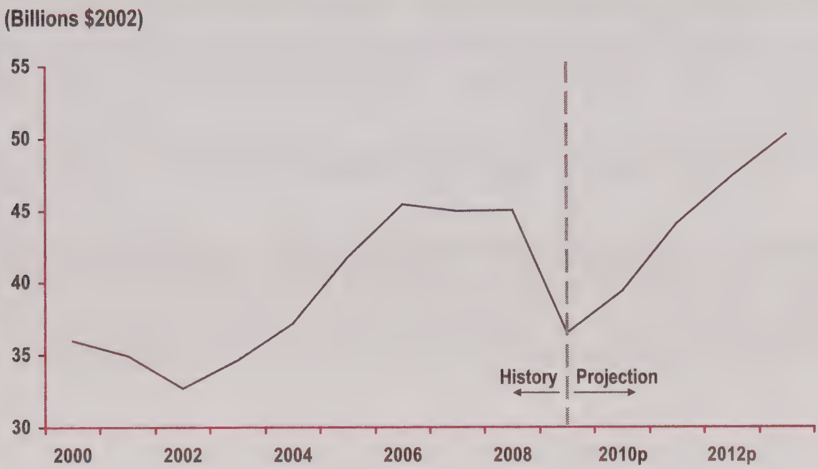
In today's global economy, many businesses can operate almost anywhere in the world. In order to compete with other jurisdictions for investment and jobs, Ontario must have a tax system that encourages businesses to locate here. The HST, together with other tax changes, will cut Ontario's marginal effective tax rate on new business investment in half by 2018, making Ontario one of the most tax-competitive jurisdictions in the industrialized world for business investment, leading to more jobs.

A study that examined the experience in the Atlantic provinces that adopted the HST in 1997 found that investment in machinery and equipment was 12.1 per cent higher relative to other provinces.[1] In Ontario, the HST will also contribute to the strong growth in business investment in machinery and equipment expected between 2010 and 2013.

[1] Michael Smart, "Lessons in Harmony: What Experience in the Atlantic Provinces Shows About the Benefits of a Harmonized Sales Tax," C.D. Howe Institute Commentary, C.D. Howe Institute, Issue 253, July 2007.

HST Encourages Investment in Machinery and Equipment

Chart 5

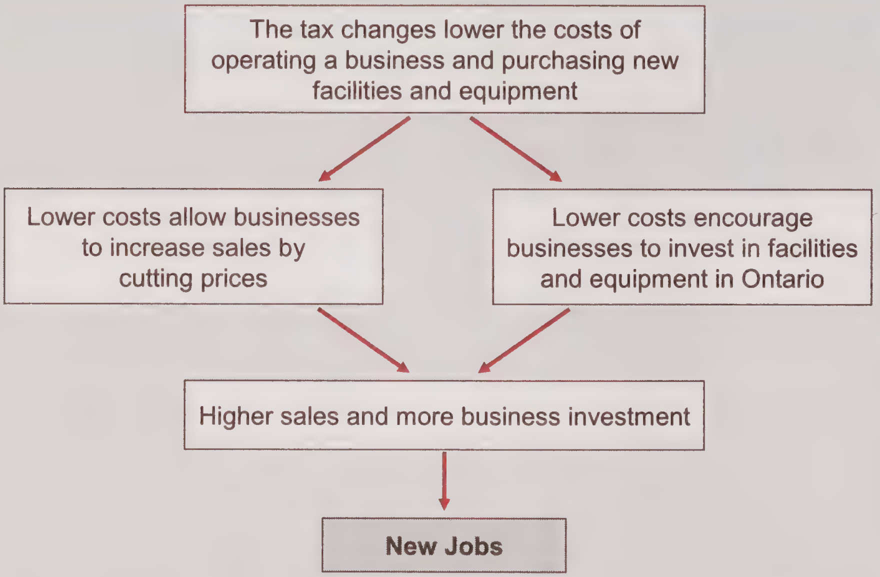


p = Ministry of Finance planning projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

Other studies from around the world have confirmed that lower corporate tax rates result in higher investment, which in turn leads to a higher demand for workers and higher incomes for working people.[2]

The Tax Plan for Jobs and Growth will lead to similar benefits for Ontarians. It is estimated that by 2020, the reduction in the tax burden on new business investment due to the tax plan and other tax changes will increase investment in the province by $47 billion, leading to almost 600,000 net new jobs and higher annual incomes of up to 8.8 per cent.[3]

How Do the HST and Tax Cuts for Business Create Jobs? — Chart 6



[2] For example, Wiji Arulampalam, Michael P. Devereux and Giorgia Maffini, 2009, "The Direct Incidence of Corporate Income Tax on Wages," Working Paper 09/17, Oxford University Centre for Business Taxation; and Ruud A. de Mooij and Sjef Ederveen, "Taxation and Foreign Direct Investment: A Synthesis of Empirical Research," *International Tax and Public Finance* 10, no. 6, 673–93, November 2003.

[3] Jack Mintz, "Ontario's Bold Move to Create Jobs and Growth," School of Public Policy, University of Calgary, November 2009.

INFRASTRUCTURE INVESTMENTS

Investment in public infrastructure is a key component of the government's Open Ontario plan and an essential building block of the economy. Infrastructure investments are improving Ontario's schools, hospitals, roads and bridges. They enhance the quality of life for citizens, improve public services, reduce business costs and stimulate the economy by preserving and creating jobs.

The Economic Impact of Public Infrastructure in Ontario

Conference Board of Canada, March 2010

The Conference Board of Canada produced a report that assessed the economic impact of public infrastructure investment in Ontario.*

- ☑ Public infrastructure investment provided over 180,000 direct, indirect and induced full-year jobs in 2009, rising to nearly 225,000 jobs in 2010. (Induced jobs are generated by the spending from those directly and indirectly employed.)
- ☑ The extra boost to infrastructure spending, partly due to new stimulus measures to counter the global recession, helped lift Ontario real gross domestic product growth by 0.9 percentage points in 2009 and is expected to add a further 0.4 percentage points in 2010.
- ☑ Additional spinoff benefits from investments in infrastructure that the Conference Board identified include improved health, improved educational attainment and reduced transit times.
- ☑ Investment in public infrastructure in Ontario supports business-sector productivity growth. Since 2000, programs such as Move Ontario and ReNew Ontario have lifted the contribution of public capital investment to productivity growth to 0.23 percentage points annually, up from 0.16 percentage points in the previous two decades.

* Pedro Antunes, Kip Beckman and Jacqueline Johnson, "The Economic Impact of Public Infrastructure in Ontario," The Conference Board of Canada, March 2010.

The Plan:

The government is investing approximately $28 billion in 2009–10 and 2010–11 to stimulate economic growth. These investments include short-term stimulus projects as well as major new investments to enhance Ontario's economic and community-based infrastructure.

Ontario's communities are benefiting from infrastructure investments in clean water, health, education, transportation, culture, tourism, sports and recreation, and social and affordable housing.

The Results:

Significant progress was made over the summer construction season on the government's stimulus investments. For example, the average percentage of project completion for the Infrastructure Stimulus Fund rose from 42 per cent in June 2010 to 66 per cent in October 2010. Over 3,300 short-term stimulus projects are now complete.

Infrastructure investments are making a difference in Ontario:

- ☑ **Improving Community Infrastructure:** In 2009–10, the provincial and federal governments jointly committed more than $110 million to 55 community centre and community service infrastructure projects through the Infrastructure Stimulus Fund. Projects include the rehabilitation of the Chaplin Family YMCA in Cambridge, which is improving the energy efficiency and longevity of a facility that serves the family recreation needs of this community.
- ☑ **Improving Health Care:** Construction is in progress or completed for more than 100 major hospital projects. For example, the new Sudbury Regional Hospital, one of 18 new hospitals built or underway since 2003, brings together all acute and rehabilitation services from three sites into one location.

- ☑ **Improving Ontario's Schools:** Infrastructure investments are making schools better places to learn. Since 2003, 400 new schools have been built with 100 more in progress. In addition, more than 17,000 school renewal projects, including replacing roofs, windows and boilers, are completed or underway.
- ☑ **Improving Postsecondary Facilities:** In 2009–10, the federal and provincial governments committed approximately $1.5 billion in joint stimulus funding for 49 infrastructure projects at Ontario's colleges and universities. These projects include a new library and academic facility at Centennial College's Progress campus and a new instructional and laboratory project at the University of Toronto Mississauga. This and other stimulus investments are modernizing campuses and creating more than 36,000 spaces at postsecondary institutions across Ontario.
- ☑ **Improving Ontario's Highways:** Ontario highway investments have created or rehabilitated more than 3,500 kilometres of new and existing roads since 2004. This is roughly the same distance as the drive from Ottawa to Calgary. Recently completed projects include four-laning of a nine-kilometre section of Highway 11 from Katrine to Burk's Falls — a $126 million investment in a key gateway corridor to northern Ontario — and the opening of 16 kilometres of high-occupancy vehicle lanes on the Queen Elizabeth Way between Trafalgar Road in Oakville and Guelph Line in Burlington.

For more information on Ontario's infrastructure investment, visit: www.ontario.ca/infrastructure

INVESTING IN KNOWLEDGE AND SKILLS

The Plan:

A well-educated workforce drives the province's economic growth and competitiveness. That is why education, from early learning through elementary, secondary and postsecondary, is a top priority for the McGuinty government. Ontario's colleges, universities and training institutions play a critical role in equipping people for the jobs that will ensure future prosperity. They also open the province to the world, attracting students from every corner of the globe, which has significant economic benefits in a knowledge-based economy.

Employment and Training Supports

The Results:

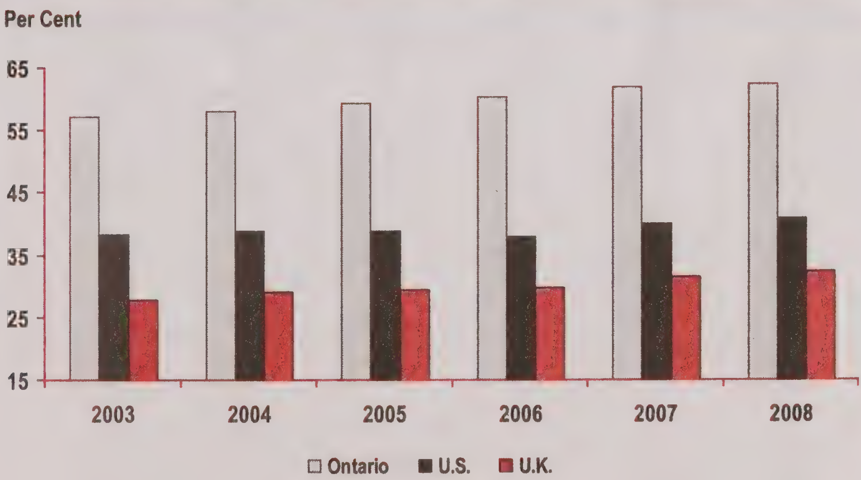
- ☑ Over the past two years, the need for employment and training services increased sharply because of the global recession. In response, the government committed about $1.6 billion to jobs and skills training through Employment Ontario in each of 2009–10 and 2010–11, with a special focus on workers affected by the economic recession.
- ☑ Employment Ontario is serving more than one million people annually, including laid-off workers, apprentices, newcomers and youth, as well as employers who use the network to find workers with the skills they need.
- ☑ Since 2008, the Second Career program has helped over 36,000 laid-off workers get training.
- ☑ 93 per cent of Second Career participants surveyed have graduated and over 60 per cent have found jobs within an average of three months of graduating.
- ☑ About 120,000 apprentices are learning a trade today — almost twice as many as in 2002–03.
- ☑ More than 40,000 newcomers are working in jobs consistent with their education and experiences, thanks to more than 200 bridge training programs in over 100 professions and trades.
- ☑ This year, more than 120,000 immigrants used free language training programs to improve their ability to speak and write English or French.

Supporting a Knowledge-Based Economy

The Results:

- ☑ 200,000 additional postsecondary students and apprentices will be learning this year compared to 2002–03.
- ☑ 63 per cent of Ontario adults have attained postsecondary education credentials. This is one of the best attainment rates in the world, more than 20 per cent higher than in the United States and almost twice as high as in the United Kingdom. Ontario is reaching even higher, with a new target of 70 per cent.
- ☑ Ontario has one of the most generous student assistance programs in the country. About 187,000 Ontario Student Assistance Program (OSAP) recipients benefited in 2009–10 from improvements through the Reaching Higher plan. In 2010–11, as part of the government's Open Ontario plan, an additional $81 million is being provided in financial support for college and university students, to expand and modernize OSAP.

Adults Who Completed Postsecondary Education — Chart 7



Note: Includes adults aged 25–64 who completed postsecondary education.
Source: OECD, Education at a Glance; Statistics Canada, Labour Force Survey (special tabulation for Ontario).

Full-Day Kindergarten

More than one in four children who enter Grade 1 are significantly behind their peers. Many never close the gap and are unable to fully participate in and contribute to society. To ensure that a quarter of Ontario's children are not left behind, more must be done, earlier, to support children's learning. That is why Ontario introduced full-day kindergarten for four- and five-year-olds.

Full-day kindergarten is an important part of the government's Open Ontario plan. Getting kids off to a good start today means a strong economy in the future. Full-day kindergarten and seamless before- and after-school programs also help busy parents save time and money.

The Results:

- ☑ This school year, full-day kindergarten is available in nearly 600 schools for up to 35,000 students in Ontario. Parents may also enroll their child for extended hours for a reasonable fee, before and after regular school hours.
- ☑ In September 2011, full-day kindergarten will be available in an additional 200 schools. That means by 2011, up to 50,000 children will benefit from the program.
- ☑ At full implementation, the program will employ up to an additional 3,800 teachers and 20,000 early childhood educators, and benefit about 247,000 children.

Student Success

The Results:

- ☑ Since 2002–03, the government has made great strides towards helping students improve their reading, writing and math skills. Over recent years, these programs have helped more students achieve the provincial standard on province-wide tests — in 2009–10, 68 per cent of Grades 3 and 6 students met or exceeded the provincial standard in reading, writing and math. This is a 14 percentage point increase since 2002–03.
- ☑ Since 2005, the government's Student Success Strategy has been helping students in Grades 7 to 12 tailor their education to their individual strengths, goals and interests. Graduation rates increased from 68 per cent in 2003–04 to 79 per cent in 2008–09. That means more than 52,500 additional students have graduated since 2003–04.

SECURING OUR RETIREMENT FUTURE

The government is committed to strengthening the retirement income system and helping Ontarians secure a stable retirement. More Ontarians are concerned about their retirement savings because they saw how the global recession affected their investments. At the same time, fewer working Ontarians have a pension plan. Many Ontarians are not saving enough to maintain their standard of living in retirement and are feeling insecure and uncertain about their financial future.

The discussion paper "Securing Our Retirement Future: Consulting with Ontarians on Canada's Retirement Income System" can be found at: www.ontario.ca/pensions

The Plan:

Ontario has a comprehensive plan to improve retirement income security for Ontarians. The plan consists of three key elements:

- ☑ supporting a modest, fully funded and gradual increase to the Canada Pension Plan (CPP) to ensure that working Canadians have an improved pension. The Province is requesting feedback on possible approaches to a modest expansion of the CPP by November 29, 2010. This feedback will help inform Ontario's position at the federal–provincial–territorial finance ministers' meeting on December 20, 2010;
- ☑ working with other governments and pension partners to develop new and innovative ways to expand the range of institutions that can set up pension plans and the range of people who can access them, including the self-employed; and
- ☑ modernizing Ontario's *Pension Benefits Act* to enhance the reliability, security and affordability of employment-based defined benefit pension plans.

The Results:

- ☑ The *Securing Pension Benefits Now and for the Future Act, 2010* proposes changes that would strengthen pension funding rules, clarify pension surplus rules and ensure a more sustainable Ontario Pension Benefits Guarantee Fund. It builds on the first phase of reforms that were passed unanimously by the legislature in May 2010 (the *Pension Benefits Amendment Act, 2010*). These changes constituted the first major pension reforms in over 20 years.

PROTECTING CONSUMERS THROUGH STRONG FINANCIAL REGULATION

Ontario is moving ahead with plans to protect consumers and investors and to ensure strong and competitive financial markets. Canada's financial system, largely based in Ontario, has emerged as a world leader, according to the latest reports by the International Monetary Fund and World Economic Forum. Effective federal and provincial regulation and prudent risk management contributed greatly to market safety and stability.

The Plan:

The government is modernizing Ontario's financial regulation by protecting consumers and investors, strengthening regulatory requirements to bolster the soundness and stability of financial markets, and adopting flexible and effective global regulatory practices.

- ☑ The federal government and interested provinces and territories are working together to establish a Canadian Securities Regulator. To meet the needs of Canadian capital markets, the national regulator should be centred in Canada's financial capital, Toronto.
- ☑ The government is proposing amendments to the Ontario *Securities Act* to allow the Ontario Securities Commission (OSC) to develop and implement a robust regulatory framework for over-the-counter (OTC) derivatives. These amendments would allow for new rules specifically designed for OTC derivatives and would also include derivatives within the scope of existing insider-trading offences.

- ☑ With the proposed amendments to the Act, Ontario is providing regulatory leadership, promoting fair and efficient capital markets, enhancing investor protection and bringing its legislation in line with Canada's international commitments. The proposed framework is also consistent with the federal government's draft Canadian Securities Act and would facilitate a seamless transition to the regulation of this vital market at the national level.
- ☑ This legislative initiative will help promote Ontario's growing stature as a well-regulated, world-class financial market.
- ☑ Additional proposed amendments to the Ontario *Securities Act* would provide for regulatory oversight of credit rating agencies and strengthen the oversight of alternative trading systems (ATSs), which are securities marketplaces that perform some of the functions of an exchange.

"The evolution of the capital markets also reinforces that now — more than ever — we must reform our system of regulation by supporting the implementation of a national securities regulator. I am committed to supporting the Ontario Government, the Canadian Securities Transition Office and participating provincial regulators to make this important goal a reality."

Howard Wetston, recently appointed Chair of the Ontario Securities Commission, Remarks to the Standing Committee on Government Agencies November 2, 2010

- ☑ On September 1, 2010, the government introduced key reforms to Ontario's auto insurance system. The main goals of the reforms are to promote greater price stability, ensure more premium dollars go towards treating injuries, and create a less complex auto insurance system. This fall, the government will be enhancing consumer protection by strengthening the Financial Services Commission of Ontario's ability to ensure fairness in the rules that auto insurers use to choose whom they will insure.

The Results:

- ☑ The OSC Investor Advisory Panel is now up and running and it has begun commenting on OSC initiatives to help ensure that the work of the Commission is informed by the perspectives of a broad range of investors.

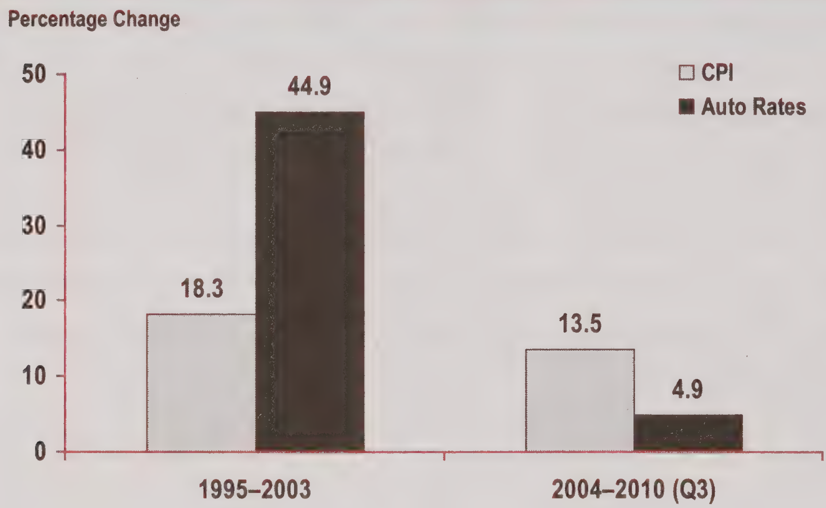
The "Investor Advisory Panel" section of the OSC website includes information on the Panel, its mandate and members, meeting agendas and minutes, initiatives it is considering and its submissions to the Commission:

www.osc.gov.on.ca/en/Investors_advisory-panel_index.htm

- ☑ The OSC and the Investor Education Fund have been actively supporting the Ministry of Education's plans to introduce financial literacy in Ontario's curriculum, commencing in September 2011. These new classroom learning opportunities will help Ontario's youth develop critical money-management skills, ensuring a financially literate population and well-educated workforce.
- ☑ Ontario's financial services sector remained resilient during the recession, increasing its employment by 3.3 per cent in 2009. In comparison, employment in the U.S. financial sector fell by over 4 per cent.

- ☑ The government has kept growth in auto insurance premiums low since 2003. Over the past seven years, average premium growth was below inflation over the same period. With the reforms that took effect this fall, Ontario drivers are now in a better position to customize their auto insurance coverage to suit their own circumstances. Ontario's standard auto insurance medical and rehabilitation benefits remain the most generous in Canada when compared to other provinces with similar auto insurance marketplaces.
- ☑ While the government anticipates that rate stabilization will take some time, recent information indicates that this is taking place. Average auto insurance rate approvals have decreased for two consecutive quarters, decreasing by more than 1 per cent in the second quarter of 2010 and by almost 0.1 per cent in the third quarter of 2010.

Auto Insurance Costs Held Below Inflation Since 2003 — Chart 8



Sources: Financial Services Commission of Ontario (FSCO) and Ontario Ministry of Finance.

SUPPORTING ONTARIO PROSPERITY AND JOBS

Through the Open Ontario plan, the government has supported key sectors in the economy to encourage jobs and growth. These supports have improved competitiveness and will help to ensure long-term prosperity.

Public Transit

The Plan:

The Province is investing heavily in public transit. By the end of 2010–11, the Province will have provided $10.8 billion in support including $4.7 billion for GO Transit since 2003. The Province is committed to making further significant investments in the Metrolinx Regional Transportation Plan and other municipal transit priorities. These projects will ease traffic congestion, thereby improving the movement of people and goods on Ontario's roads and highways.

The Results:

- ☑ GO Transit commuters are benefiting from expanded services. In 2007, rail service to Barrie resumed after being cancelled in 1993. In addition, GO Transit bus service to Peterborough, Niagara and Kitchener–Waterloo has been expanded.
- ☑ Buses began running in Brampton's Queen Street corridor in September 2010, as part of the first phase of the Züm bus rapid transit service.
- ☑ Work has begun on a number of major Greater Toronto Area transit projects, including the Toronto–York Spadina Subway Extension, York vivaNext bus rapid transit and Mississauga bus rapid transit project. In addition, work is underway on projects in Toronto that support Metrolinx's Regional Transportation Plan, including construction on the Sheppard Light Rail Transit line and acquisition of tunnel-boring machines for the Eglinton Crosstown Rapid Transit project.

- ☑ The PRESTO electronic fare card is rolling out, with more than 14,500 PRESTO cards being used in the Greater Toronto and Hamilton Area for over 900,000 trips as of October 2010.
- ☑ Toronto is one of the few remaining metropolitan cities without a rail link to its airport. Construction is underway on the GO Georgetown South Corridor to support the Air Rail Link that will connect Union Station to Toronto Pearson International Airport and will be in place for the 2015 Pan/Parapan American Games.
- ☑ Funding is committed for large rapid transit projects in Ottawa and the Kitchener–Waterloo region.

Jobs and Economic Growth in Northern Ontario

The Plan:

Ontario is committed to helping strengthen and increase prosperity in the North. The government is promoting economic growth with new investments to help all northern Ontarians participate in and benefit from emerging economic development opportunities.

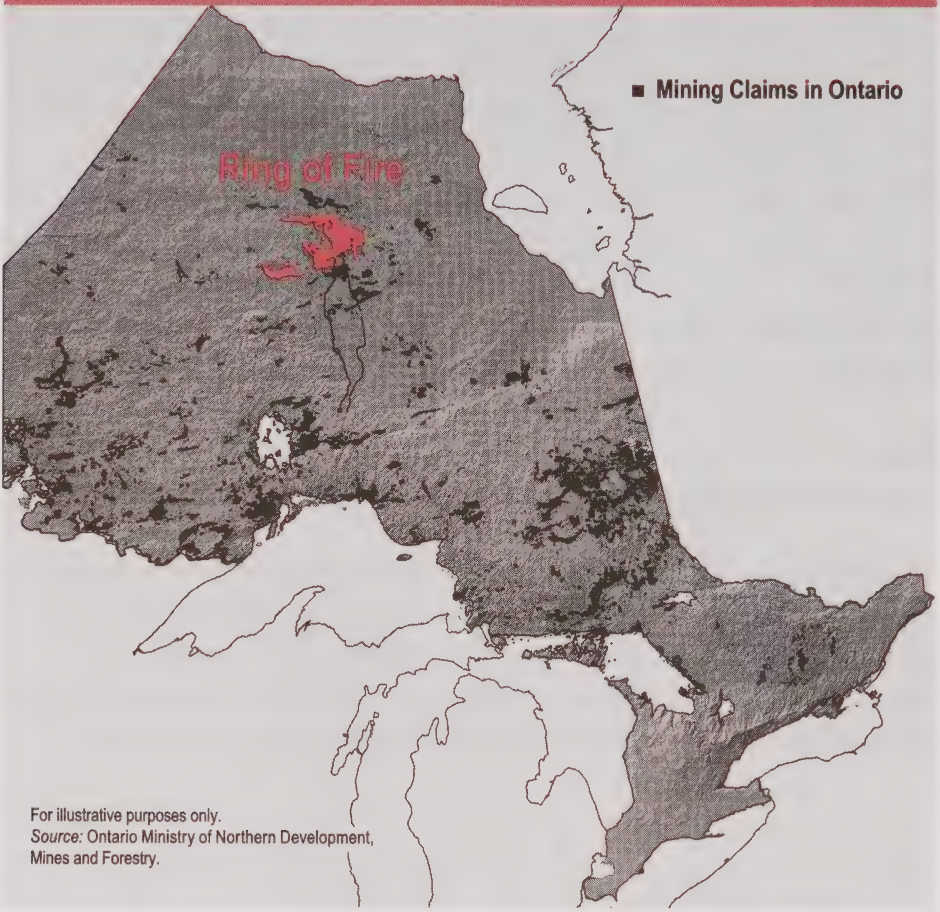
The Results:

The government is taking action to help build opportunities in the Ring of Fire, an area of the Far North with potentially large deposits of minerals like chromite, copper, nickel and platinum. On September 30, 2010, a Ring of Fire Coordinator was appointed. The Coordinator will work with northerners, Aboriginal communities and the mining industry to help facilitate new mining development.

The *Far North Act, 2010*, when proclaimed, will support growth in the region through land use planning that enables both economic development and the protection of approximately 225,000 square kilometres of public lands. First Nations will work with Ontario to identify the areas to be protected and the law will require First Nations' approval of community-based land use plans.

Location of the Ring of Fire

Chart 9



For illustrative purposes only.
Source: Ontario Ministry of Northern Development, Mines and Forestry.

Auto Sector

The auto industry is a key driver of Ontario's economy. It includes major vehicle assemblers and more than 400 parts manufacturing plants, accounting for over 90 per cent of the total Canadian automotive industry. There are five automakers with 12 assembly plants and one heavy-truck manufacturer in the province. Ontario builds more vehicles than any other province or state in North America.

The auto industry was hit hard in the global recession. It is now on the path to profitability, as production volumes increase. For the first 10 months of 2010, total vehicle production in Ontario rose by 46 per cent, compared to the same period last year. Ontarians are expected to produce about 1.9 million vehicles in 2010.

The Plan:

Ontario is a leading player in the North American auto industry and is taking steps to remain a leader in the future. The Province invested $4.6 billion in General Motors and Chrysler to preserve at least 85,000 jobs and ensure the future global competitiveness of a sector that directly and indirectly supported about 400,000 Ontario jobs in 2008.

Ontario was the only sub-national jurisdiction in North America to make these investments. This action was necessary to save thousands of jobs and avoid significant permanent damage to Ontario's economy and communities.

The Results:

- ☑ General Motors (GM) has a significant production footprint in Ontario, and continues to invest in the province. On October 19, 2010, GM recalled about 600 workers and started a third shift at the Oshawa assembly plant. Vehicle production at the GM plants is up by more than 60 per cent as of October 2010 compared to the same period in 2009. Also, the company has recently added capacity at its plant in Ingersoll. General Motors' vehicle production, capital expenditure, and research and development commitments to Canada remain, even if Ontario and Canada sell their shares.
- ☑ Chrysler vehicle production in Ontario is up by 76 per cent compared to the same period last year.
- ☑ On August 12, 2010, Chrysler announced a $27.2 million investment in its Etobicoke Casting Plant, which will retain 280 jobs.
- ☑ On April 20, 2010, GM repaid the outstanding loan portion of its support from the U.S., Canadian and Ontario governments.
- ☑ Toyota, Honda and Ford, which employ approximately 19,000 people in Ontario communities, have increased production from the previous year, which will keep more people working.

Financial Services

The financial services sector is a critical engine and a key job creator in Ontario's economy. Toronto is home to the head offices of globally successful banks, insurance companies, and investment and pension funds. It is the third-largest financial centre in North America based on employment. Since 2003, employment in the financial services sector grew to 365,000 jobs in 2009, an increase of 60,000 jobs. The sector supports an estimated 280,000 ancillary jobs, including high-paying business services jobs (such as software design).

The Plan:

The Ontario government is partnering with leaders in the financial services industry through the Financial Services Leadership Council to implement a plan to improve the sector's competitiveness and create thousands of high-paying jobs. This is part of the Open Ontario plan, which includes helping Toronto become one of the top 10 financial centres in the world. Toronto currently ranks twelfth based on the Global Financial Centres Index.

The Results:

- ☑ In the *2010 Budget*, the government provided support to the Toronto Financial Services Alliance to help implement a government–industry plan to grow Ontario's financial sector and create jobs.
- ☑ Ontario is providing $10 million for the Global Risk Institute in Financial Services (GRi), which will be a non-profit entity comprising industry leaders, regulators and members of the academic community. Announced in September 2010, GRi will build on Toronto's status as a premier financial services centre.
- ☑ Ontario has established the Centre of Excellence in Financial Services Education to build on the province's strong knowledge and skills base. It is working to attract foreign students and develop the best financial services sector talent out of Ontario's highly skilled and diverse workforce.

Section B: Managing Responsibly

HIGHLIGHTS

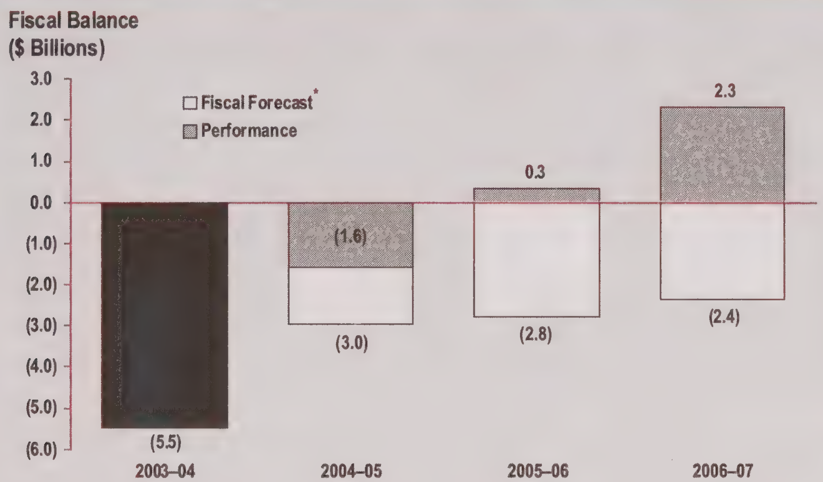
- ☑ 2010–11 deficit projection is $18.7 billion, down from the $19.7 billion forecast in the *2010 Ontario Budget*. This represents an almost 25 per cent improvement from the $24.7 billion deficit forecast a year ago for 2009–10.
- ☑ The government has laid out a realistic, responsible plan to cut the deficit in half within five years of its highest point and to eliminate it in eight years.
- ☑ Proceeds from the government's proposed agreement with Teranet would be used to reduce Ontario's debt.
- ☑ The government has introduced a number of measures to improve accountability and transparency within the Ontario Public Service (OPS) and across the broader public sector.
- ☑ To achieve its fiscal targets while protecting public services, the government:
    - reduced consulting expenditures by 50 per cent since 2002–03;
    - is on track to reduce the size of the OPS by five per cent by March 31, 2012 through attrition and other measures;
    - reduced travel expenses by 26 per cent between 2008 and 2009;
    - has taken action to restrain compensation in the OPS and in the broader public sector that would help redirect approximately $2 billion towards sustaining public services over two years;
    - extended the pay freeze for Members of Provincial Parliament from one year to three years;

- revised the scope and timing of some capital investments;
- introduced additional accountability measures to ensure taxpayer dollars are used wisely; and
- reduced the prices of most generic drugs listed under the Ontario Public Drug Program by 50 per cent, to 25 per cent of the cost of the comparable brand-name product.

A REALISTIC AND RESPONSIBLE PLAN

The government has a record of achieving fiscal results ahead of schedule. It eliminated the $5.5 billion deficit it inherited and posted three consecutive balanced budgets.

Government Track Record on Deficit Reduction Chart 10

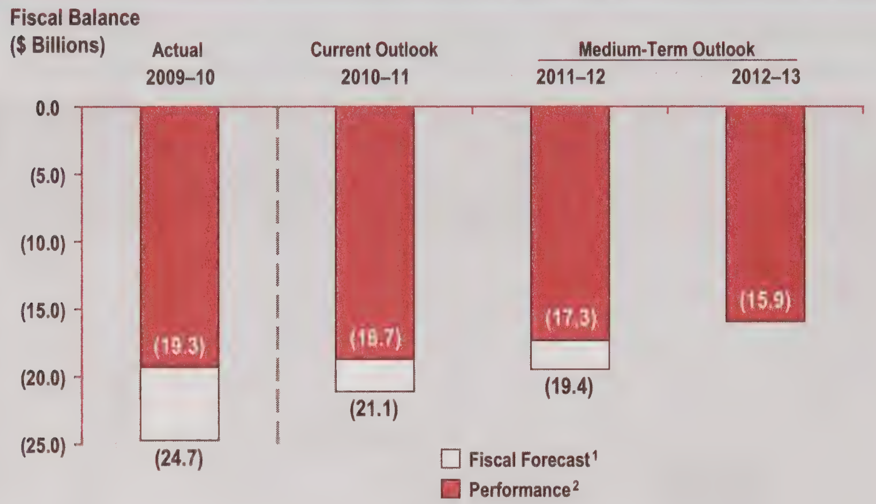


*Based on the fiscal plan outlined in the *2005 Ontario Budget*.
Source: Ontario Ministry of Finance.

The current deficit projection for 2010–11 of $18.7 billion is down from the $19.7 billion forecast in the *2010 Budget*. The current projection represents an almost 25 per cent improvement from the $24.7 billion deficit forecast a year ago for 2009–10.

The Province remains on track to meet its medium-term fiscal targets and achieve its plan to cut the deficit in half within five years of its highest point and eliminate it in eight years.

Ontario's Medium-Term Fiscal Outlook Chart 11



[1] Based on the fiscal forecast in the Fall *2009 Ontario Economic Outlook and Fiscal Review.*

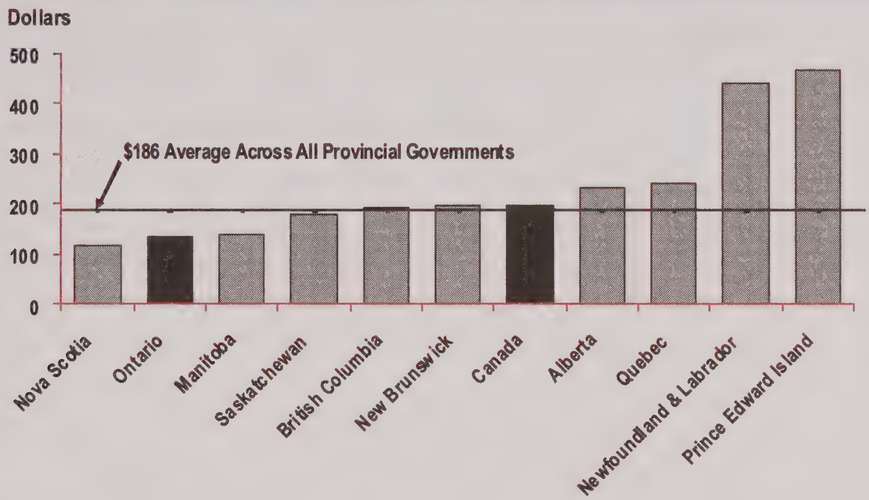
[2] Represents current forecast for 2010–11 through 2012–13. For 2009–10, actual results are presented.

The improvement in the 2010–11 fiscal forecast is mainly due to an increase in revenue resulting from stronger economic growth and the government's prudent fiscal and expenditure management. Over the past seven years, the government's responsible approach has enabled Ontarians to benefit from ongoing investments in education, health care and infrastructure — even during the difficult 2008 global economic recession.

Since 2003, the government has continuously worked to modernize the delivery of public services, create administrative efficiencies, and improve accountability and transparency to achieve better value for money.

In 2007, the government announced that over four years it had identified savings of $806 million, by consolidating administration, streamlining processes, making better use of technology, and establishing ongoing cost-avoidance and cost-reduction initiatives. In 2008–09, Ontario's spending per capita on general government services was $134 per person. This is the second lowest among the provinces and 28 per cent lower than the $186 average per person spent across all provincial governments.

Government Spending* Per Capita, 2008–09 Chart 12



* Consolidated provincial and territorial government spending on general government services.
Sources: Statistics Canada and Ontario Ministry of Finance.

Building on these results, as part of its 2010 ongoing comprehensive review, the government has identified an additional $260 million in efficiency savings.

The government remains committed to managing growth in spending. These actions allow the Province to support the Open Ontario plan investments in knowledge and skills, health care, the green economy and the Poverty Reduction Strategy.

MODERNIZING ONTARIO'S ELECTRONIC LAND REGISTRATION SYSTEM

The Province of Ontario is the first jurisdiction in the world to provide electronic registration of land-related documents. Electronic land registration enhances security, improves the accuracy and integrity of the database, and provides an electronic audit trail.

The government has negotiated the principal terms of a proposed agreement to renew its long standing business partnership with Teranet Inc. by extending Teranet's exclusive licences to provide electronic land registration and writs services in Ontario.

Teranet Overview and History

Teranet was formed in 1991 as a partnership between the Province of Ontario and the private sector to create an electronic land registration system. The task involved moving from a 200-year-old paper-based system to create a database with records for more than five million parcels of land.

In 1999 the first electronic transaction took place and, since then, Ontario's Electronic Land Registration System has grown to contain information on over four million properties, with registration volumes in excess of two million per year.

Teranet, under existing agreements with the Province, has the exclusive right until 2017 to operate Ontario's Electronic Land Registration System, which allows for electronic registration of land documents as well as title searches relating to real property and writ searches.

Since Teranet's creation, the Province has been involved in a number of Teranet transactions:

- In August 2003, the previous government sold its 50 per cent interest in Teranet and its entitlement to royalties until 2017 to Teramira, the other owner of Teranet, for $370 million. The terms of the sale included Provincial rights to approve and share in the value of any future sale of Teranet.
- In June 2006, through its right to share in the value of any future Teranet sale, the Province received proceeds of $573 million from the initial public offering of the Teranet Income Fund. The Province contributed $54 million of these proceeds to an overall $116 million investment by Teranet in service improvements and system enhancements to Ontario's Electronic Land Registration System.
- In November 2008, Borealis, Teranet's current owner, announced its successful takeover bid for the Teranet Income Fund, which was subject to approval by the Province.

The Province continues to provide ongoing oversight of the Electronic Land Registration System.

Teranet Inc., which is owned by Borealis Infrastructure, was formed to provide electronic land registration services for the Province in 1991. The Province has negotiated the principal terms of a proposed agreement with Borealis to continue this long-standing business partnership by renewing, for an additional 50 years, Teranet's exclusive licences to provide electronic land registration and writs services in Ontario.

Under the proposed agreement, Borealis would provide the Province with an upfront payment of $1 billion, which would be used to reduce the Province's debt. Reducing borrowing needs would lower interest costs, and lowering interest costs would create more fiscal room. Using the Borealis payment to reduce debt would also help protect the fiscal plan against any future rise in interest rates. Beginning in 2017, the Province would also receive annual royalty payments from Teranet, which are expected to be approximately $50 million in 2017–18 and to grow in future years.

The proposed agreement would also specifically provide for Provincial control over the fees charged by Teranet for statutory land registration and writs services. The proposed agreement does not provide for any fee increases for five years. In 2015, certain fees would be increased to equalize fees for searches done in land registration offices and those done remotely, and certain fees would be adjusted by 50 per cent of inflation based on the consumer price index. The first adjustment would be cumulative, based on 50 per cent of inflation over the previous five years, with future adjustments occurring annually. Because these adjustments would be based on only 50 per cent of the full rate of inflation, fees would not rise as quickly as inflation and thus decline in real terms over time.

The Province would also continue its oversight of the integrity of the Electronic Land Registration System data. In addition, the proposed agreement includes a performance framework and commitments by Teranet to ensure Ontario's Electronic Land Registration System remains modern, user friendly, reliable and secure.

Significant Consumer Protection

In contrast to the previous government's Highway 407 Express Toll Route transaction, this proposed agreement contains significant consumer protection tools, such as Provincial control over any increases to fees charged by Teranet for statutory services. Further, this proposed agreement includes provisions ensuring the Province has ongoing participation in Teranet through royalties and the potential to share in any extraordinary profits realized by Teranet through a sale, or the exceptional performance, of the business.

This proposed agreement would ensure that high-quality services continue to be delivered to the public and that the electronic service offerings continue to be enhanced and modernized.

The proposed transaction is subject to certain final closing conditions and is expected to close in late 2010.

STRENGTHENING ACCOUNTABILITY AND TRANSPARENCY

The Plan:

Since 2003, the government has introduced a number of measures to improve accountability and transparency within the OPS and across the broader public sector. More recently, Premier McGuinty committed to implementing additional accountability measures to ensure taxpayer dollars are used wisely.

The Results:

☑ Effective April 1, 2010, the revised Travel, Meal and Hospitality Expenses Directive provides stronger and easy-to-follow expense rules for staff at ministries and 22 of the largest government agencies. The directive raises the standard of oversight by requiring those government entities to adhere to consistent rules and provide online disclosure of expenses to the public.

- The public now has access through the Ontario.ca website to a listing of all the travel expenses for the Premier, Cabinet Ministers, Parliamentary Assistants, political staff and senior management in the OPS and at the largest agencies.

☑ The government has introduced new legislation that would, if passed, bring in a higher standard of accountability for hospitals, Local Health Integration Networks (LHINs) and the broader public sector, around the use of external lobbyists, procurement and expenses. As a result:

- rules would be put in place to ensure fair, open and transparent expense and procurement rules in broader public-sector organizations;
- freedom-of-information legislation would be expanded to cover hospitals;
- hospitals and LHINs would be required to post expenses of senior executives online and report annually on their use of consultants; and
- executives at hospitals and LHINs could see reductions in pay should they fail to comply with the requirements of the proposed act.

MANAGING HEALTH CARE COSTS WHILE PRESERVING FRONT-LINE SERVICES

Ontario Drug Strategy

The Plan:

Since 2006, the government has implemented reforms under the Ontario Drug Strategy to improve the value for money that Ontarians pay for prescription drugs.

The Results:

- ☑ As announced in June 2010, the prices of most generic drugs listed under the Ontario Public Drug Program have been reduced by 50 per cent, to 25 per cent of the cost of the comparable brand-name product.
- ☑ The elimination of so-called professional allowances and rebates paid by generic drug companies to pharmacies that drove up the price of prescription drugs.
- ☑ Expedited approval processes to add new generic drugs and more effective brand-name drugs to the list of products covered under the Ontario Public Drug Program.

Pan-Canadian Purchasing Alliance

The government is currently working with its provincial and territorial partners to establish a pan-Canadian purchasing alliance to consolidate public-sector procurement of some common drugs, medical supplies and equipment. By capitalizing on a combined purchasing power, provinces and territories could achieve economies of scale and the realized savings could be redirected to patient care.

Excellent Care for All Strategy

The Plan:

Under the Open Ontario plan, the government committed to improving quality and accountability in the health care system and to focusing on patient care by promoting effective health care services based on medical evidence.

The Results:

- ☑ Based on expert recommendations, the government is reducing Ontario Health Insurance Plan expenditures in areas where medical evidence has shown services to be clinically ineffective or inappropriate. For example, the government is proposing to curb unnecessary vitamin D testing for otherwise healthy people.

- ☑ In June 2010, the *Excellent Care for All Act, 2010* received Royal Assent. As a result:
  - hospitals are now required to develop annual improvement plans. The compensation of health care executives will be tied to the achievement of performance improvement targets under these plans, making them more accountable for improving patient care; and
  - the mandate of the Ontario Health Quality Council has been expanded to further promote evidence-based care in the health care system. The council will develop clinical practice guidelines and provide recommendations on appropriate funding for health care services.

REDUCING THE SIZE OF THE ONTARIO PUBLIC SERVICE

The Plan:

The government is committed to making the OPS more efficient, while recognizing the importance of the services it delivers to the citizens of Ontario. In the *2009 Budget*, the government announced it would reduce the size of the OPS by five per cent over three years through attrition and other measures.

The Results:

☑ The size of the OPS has been frozen at 68,645 full-time equivalent staff.

☑ The government is on track to reduce the size of the OPS by five per cent by March 31, 2012:

- the federal government has agreed to make comparable job offers to all OPS employees affected by the move to the Harmonized Sales Tax (HST), reducing the number of positions by 1,253; and
- federal administration of the HST will save the Province approximately $100 million annually in compensation and overhead by 2014–15.

COMPENSATION MEASURES

The Plan:

The *2010 Budget* announced actions to manage compensation costs, the largest single expense for government. Currently, 55 per cent — or more than $50 billion — of all government program expense goes to compensation, either directly or through transfers.

As a result of the government's approach, provincial public-sector settlement trends have fallen since the *Budget* to below the averages in the private sector as well as the municipal and federal public sectors.

Ontarians value and appreciate the contributions of those who deliver their public services. The compensation restraint measures that the government has taken ask employers and employee groups in the public sector to work together and do their part to sustain public services.

The Results:

- ☑ The freeze on salaries for Members of Provincial Parliament has been extended for a total of three years.
- ☑ The compensation structure of non-bargaining political and Legislative Assembly staff has been frozen for two years.
- ☑ For non-bargaining public-sector employees, legislation has been passed to freeze compensation for two years.
- ☑ The government's actions to restrain compensation in the OPS and in the broader public sector would help redirect approximately $2 billion towards sustaining public services over two years.

- ☑ For bargaining parties, existing collective agreements have been, and will continue to be, respected. The government has brought unions and employers together to seek ways of achieving collective agreements with two years of net zero increases in compensation. As a result of these consultations, employers and unions have a much better understanding of the fiscal challenge faced by the Province and the government has a better understanding of employer and union positions.
- ☑ The fiscal plan provides no funding for incremental compensation increases for the first two years of any future collective agreements.

It is now up to bargaining agents and employers to ensure that the progress made together to restore services in hospitals, schools and other public services is maintained.

BALANCING INFRASTRUCTURE PRIORITIES

The Plan:

The government recognizes the importance of continuing to balance investments in infrastructure to help build a stronger economy with the need to be fiscally responsible. To ensure the right balance between infrastructure priorities and deficit reduction, the government has committed to undertaking a comprehensive review of capital spending.

The Results:

☑ The *2010 Budget* initiated this process through revising the scope and timing of some capital investments by:

- working with Metrolinx to phase construction of major transit projects in its Regional Transportation Plan over 10 years instead of eight in order to realize $4 billion in appropriation savings;
- delaying some investments in government office space by five years, resulting in appropriation savings of over $1.4 billion;
- eliminating the Ontario Bus Replacement Program and providing more flexibility in the criteria of the gas tax funding program to include replacement bus purchases; and
- delaying the construction of the Toronto West Courthouse by one year, resulting in appropriation savings of $130 million over four years.

☑ The Ministry of Infrastructure has completed consultations with its government partners on the prioritization of investments and is currently evaluating potential options to delay, re-scope or cancel lower-priority initiatives. The comprehensive review will be completed before the end of 2010.

ONGOING COMPREHENSIVE REVIEW

As announced in the *2010 Budget*, the government has continued a comprehensive review of all government programs and services. The review is working to ensure that the government's resources are focused on delivering the programs and services that support:

- ☑ jobs and economic growth;
- ☑ access to high-quality health care and education; and
- ☑ clean and strong communities, including effective supports for the most vulnerable.

The goal of the review is to move resources from low-priority areas to high-priority ones and to move forward the Open Ontario plan.

To date, the review has identified over $260 million in potential savings through both programming and administrative expenditure reductions. Some recent examples of savings include:

- ☑ streamlining OntarioBuys investments to transformation projects that deliver supply chain efficiencies and focusing on policy, support and tools for hospitals, school boards and other public institutions to enhance accountability in procurement; and
- ☑ streamlining the Ethanol Growth Fund program, while ensuring the achievement of previously stated targets. The fund supports Ontario ethanol production for gasoline blending, for a more sustainable environment.

CHAPTER 2

ONTARIO'S ECONOMIC OUTLOOK

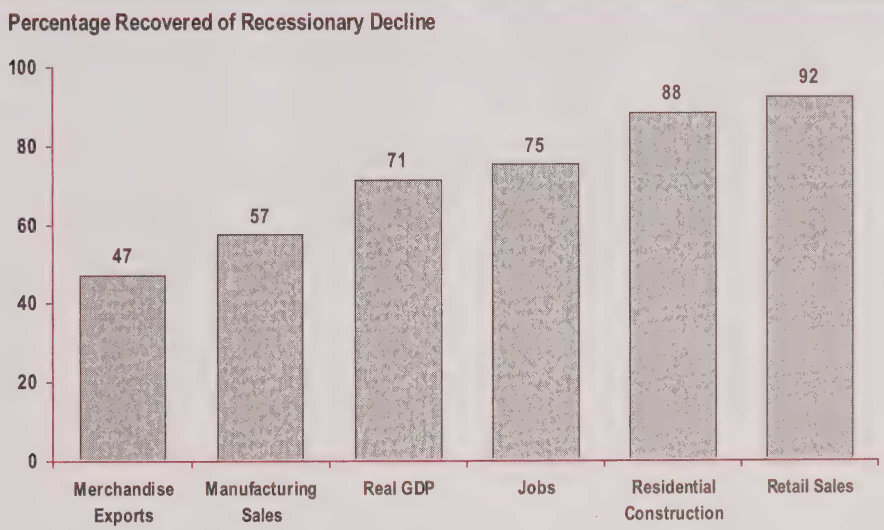
HIGHLIGHTS

- ☑ Government-projected 2010 real gross domestic product (GDP) growth — 3.2 per cent.
- ☑ Average private-sector projected 2011 real GDP growth — 2.4 per cent.
- ☑ Government-projected 2011 real GDP growth — 2.2 per cent, for prudence.
- ☑ Percentage of Ontario real GDP recovered since the recession, as of the second quarter of 2010 — 71 per cent.
- ☑ Percentage of Ontario jobs lost during the recession recovered as of October 2010 — 75 per cent.

OVERVIEW

While the economy is emerging from the global recession, Ontario's families and businesses are still feeling the effects of the financial and economic crisis. Key economic indicators have improved from lows during the recession, but most remain below pre-recession levels. As of the second quarter of 2010, Ontario had recovered 71 per cent of the loss in real GDP. Employment has grown solidly since the recession ended, regaining 75 per cent of the jobs lost in the downturn. Key indicators of trade and manufacturing, on the other hand, remain well below pre-recession levels, reflecting continuing soft demand in the United States, Ontario's main market.

The Progress of Ontario's Economic Recovery — Chart 1



Sources: Statistics Canada and Ontario Ministry of Finance.

The Ministry of Finance is assuming real GDP growth of 3.2 per cent in 2010, 2.2 per cent in 2011, 2.5 per cent in 2012 and 2.7 per cent in 2013. This is 0.2 of a percentage point below the private-sector average each year to be prudent.[1]

Ontario Economic Outlook Table 1
(Per Cent)

	2007	2008	2009	2010p	2011p	2012p	2013p
Real GDP Growth	2.0	(0.9)	(3.6)	3.2	2.2	2.5	2.7
Nominal GDP Growth	4.2	0.1	(1.1)	5.6	4.1	4.5	4.6
Employment Growth	1.6	1.4	(2.4)	1.7	1.7	1.8	1.9
CPI Inflation	1.8	2.3	0.4	2.3	2.1	2.0	2.0

p = Ministry of Finance planning projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

[1] This forecast is based on information available up to November 10, 2010.

Economic forecasts for 2010 have improved compared to those in the *2010 Ontario Budget*, but have weakened for subsequent years, largely caused by weaker anticipated U.S. growth. As well, there are significant risks to the outlook, particularly the ongoing challenges in the global economy. Key risks include sovereign debt concerns, trade imbalances and uncertainty regarding the U.S. economic recovery.

Changing Private-Sector Growth Forecasts Chart 2

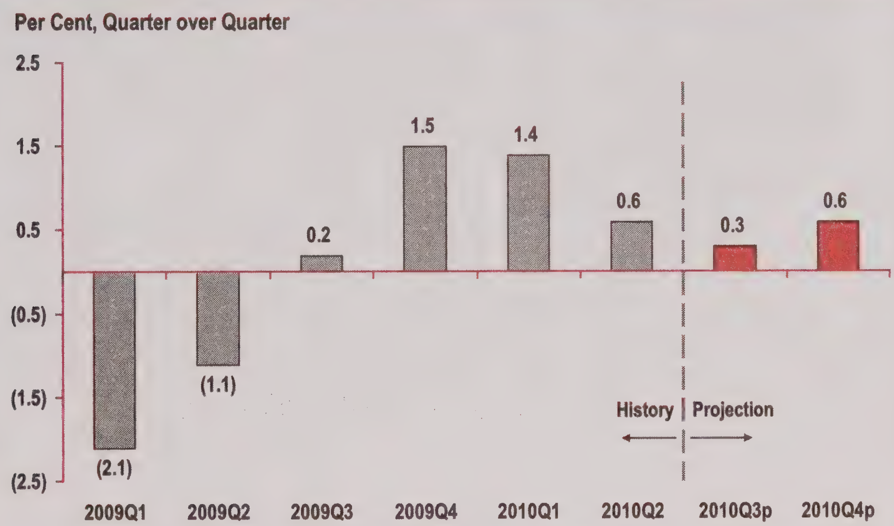
Source: Ontario Ministry of Finance Survey of Forecasts.

THE STATE OF ONTARIO'S ECONOMIC RECOVERY

There are clear signs that a recovery is taking shape in Ontario. Key indicators have improved from lows posted during the recession. After declining for four consecutive quarters — falling 4.9 per cent from the second quarter of 2008 to the second quarter of 2009 — Ontario real GDP has increased for four consecutive quarters, rising 3.7 per cent or $18.6 billion. Despite the improvement, the level of real GDP in the second quarter of 2010 was 1.4 per cent below the pre-recession level.

The pace of growth slowed to 0.6 per cent in the second quarter, down from 1.4 per cent in the first quarter and 1.5 per cent in the fourth quarter of 2009. Recent data for the third quarter reveal further signs of weakening economic growth. Employment growth slowed to 0.4 per cent (or 27,700 jobs) from 1.2 per cent (or 81,600 jobs) in the second quarter. Retail sales in July and August were down 0.1 per cent from the second quarter. Ontario's trade balance also deteriorated as merchandise imports rose 3.0 per cent from the second quarter, while exports declined 0.8 per cent.

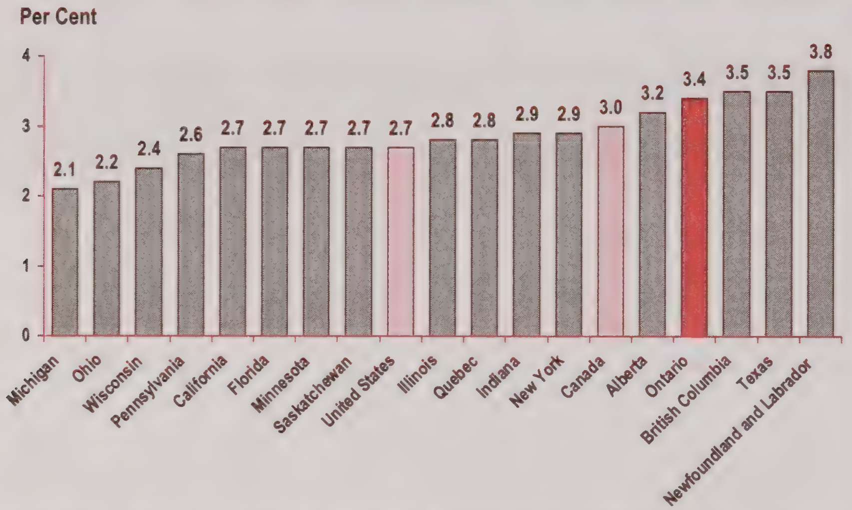
Pace of Ontario Real GDP Growth Is Slowing — Chart 3



p = private-sector average.
Sources: Statistics Canada, Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasts.

Ontario's real GDP growth in 2010 is expected to be faster than in all other provinces except British Columbia and Newfoundland and Labrador and stronger than in both Canada and the United States as a whole.

Comparative Real GDP Growth Forecast: 2010 Chart 4



Sources: IHS Global Insight (October 2010), *Blue Chip Economic Indicators* (November 2010) and Ontario Ministry of Finance Survey of Forecasts.

From September 2008 to May 2009, Ontario employment dropped by 249,700. Since May 2009, as the Ontario economy has strengthened, employment has increased by 2.9 per cent or 186,100 net new jobs. Despite the severity of the recession's impact on employment, 75 per cent of the jobs lost have been recovered. Since May 2009, Ontario's job growth has been stronger than that of most other provinces and significantly above that of the United States as a whole and most U.S. states.

Ontario Jobs Returning **Chart 5**

Sources: Statistics Canada and U.S. Bureau of Labor Statistics.

Ontario's export sector, like that of all other Canadian provinces, suffered a sharp decline in activity during the global recession. Ontario's international merchandise exports have recovered almost one-half of the decline that occurred during the downturn, but remain 18.1 per cent below the pre-recession level. Ontario auto production has also improved, rising to 493,993 units in the third quarter of 2010, well above its recession low of 280,035 units and almost 20 per cent higher than a year earlier.

Exports* Continue to Gradually Recover Chart 6

*International merchandise exports.
Sources: Statistics Canada and Ontario Ministry of Finance.

GLOBAL CHALLENGES AFFECT ONTARIO

Ontario's economic outlook is heavily influenced by global economic and financial conditions, particularly U.S. demand, oil prices, the Canadian dollar exchange rate and interest rates. Private-sector forecasts for these factors are summarized in the table below.

External Variables Table 2

Average Private-Sector Forecast

	2010	2011	2012	2013
U.S. Real GDP Growth (Per Cent)	2.7	2.5	3.2	3.0
Crude Oil ($ US per Barrel)	77.9	82.6	86.6	92.6
Canadian Dollar (Cents US)	96.2	97.7	98.5	98.3
Three-Month Treasury Bill Rate* (Per Cent)	0.6	1.6	3.0	3.9
10-Year Government Bond Rate* (Per Cent)	3.2	3.2	4.1	4.8

*Government of Canada interest rates.

Sources: Blue Chip Economic Indicators (November 2010) and Ontario Ministry of Finance Survey of Forecasts.

U.S. ECONOMIC GROWTH UNCERTAIN

The United States is Ontario's most important export market, accounting for about 80 per cent of the province's international exports in 2009. Ontario has benefited from a rebound in U.S. economic activity, with exports up 16.8 per cent so far this year, in large part reflecting a recovery in U.S. auto sales. However, recent indicators generally point to a slowing in U.S. economic growth and the pace of expansion is expected to be modest going forward.

U.S. real GDP advanced 0.4 per cent in the second quarter of 2010 and 0.5 per cent in the third quarter of 2010, much slower than the pace in the previous two quarters. The slowdown in U.S. growth largely reflects moderating export growth. As well, home-buying activity declined sharply following the end of the U.S. Homebuyer Tax Credit program this spring.

U.S. Real GDP Growth

Chart 7

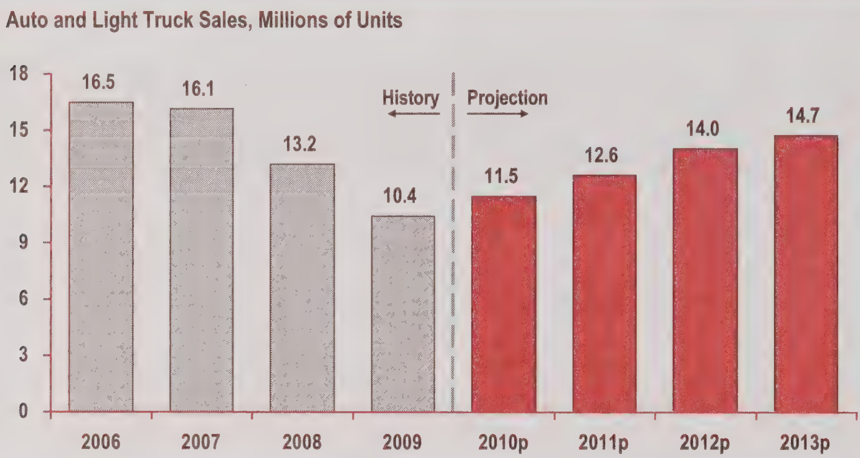
p = private-sector survey average.
Sources: U.S. Bureau of Economic Analysis and *Blue Chip Economic Indicators* (November 2010).

The U.S. economy is expected to grow by 2.7 per cent in 2010 and 2.5 per cent in 2011. As the recovery gains traction, U.S. real GDP is expected to increase by 3.2 per cent in 2012 and 3.0 per cent in 2013.

The outlook for U.S. growth has eased since the *2010 Budget*, with real GDP growth lower by 0.4 of a percentage point in 2010 and 0.5 of a percentage point in 2011. Job creation in the United States has been slow, leading to weak income growth. This, in addition to tighter credit standards and declining household credit growth, is contributing to weak consumer spending and a slower recovery in housing.

The auto industry is a key part of Ontario's economy and its performance is heavily reliant on U.S. demand. U.S. auto sales fell from a recent peak of 16.5 million units in 2006 to a low of 10.4 million units in 2009. Sales are expected to increase to 11.5 million units in 2010, 12.6 million units in 2011, 14.0 million units in 2012 and 14.7 million units in 2013. However, U.S. demand for Ontario exports will continue to be hampered by weak household income and credit growth, the high value of the Canadian dollar and the unwinding of U.S. government actions to stimulate the economy. In addition, the problems plaguing the U.S. housing market appear to be far from over.

U.S. Auto Sales Chart 8

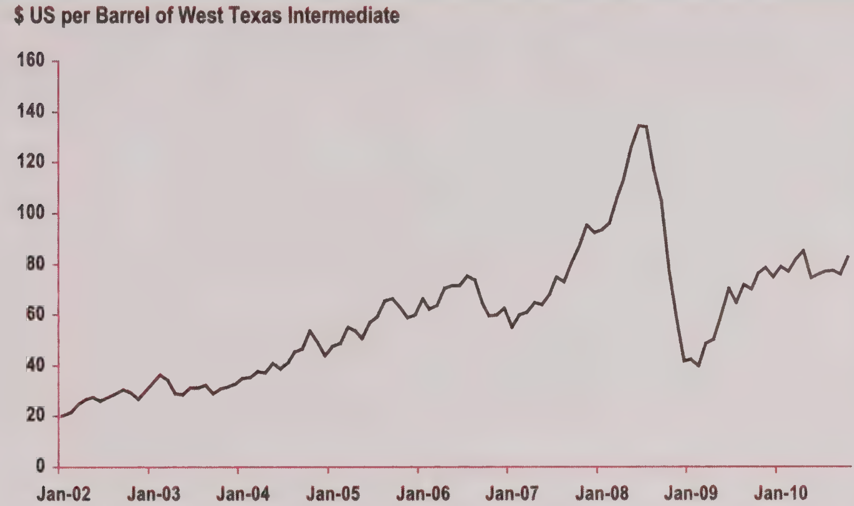


p = private-sector survey average.
Sources: U.S. Bureau of Economic Analysis and *Blue Chip Economic Indicators* (November 2010).

OIL PRICES TO EDGE UP

The cost of imported oil to the Ontario economy in 2009 was approximately $15 billion. There is a wide range of views on the future path of oil prices. Private-sector forecasters, on average, expect oil prices to average $78 US per barrel in 2010 and then steadily rise to $93 US per barrel in 2013 as the world economy strengthens. For planning purposes, the Ministry of Finance forecast is based on the futures contract for oil prices, which indicates a gradual increase in crude oil prices as the economic recovery continues.[2]

Crude Oil Prices — Chart 9



Source: New York Mercantile Exchange.

[2] Based on an average of futures contracts over the week ending November 5, 2010.

CANADIAN DOLLAR STRENGTHENING

The Canadian dollar has risen sharply from its recent low of 77 cents US in March 2009, influenced by a rebound in commodity prices, a broader depreciation in the U.S. dollar against most currencies, and Canada's favourable economic and fiscal position among developed nations. Private-sector forecasters expect the exchange rate to increase modestly, with the annual average approaching parity with the U.S. dollar. A rise in the exchange rate makes it more challenging for Ontario's exporters to compete internationally and for domestic firms to compete with foreign producers. However, a higher dollar benefits businesses by lowering the cost of importing productivity-enhancing machinery and equipment.

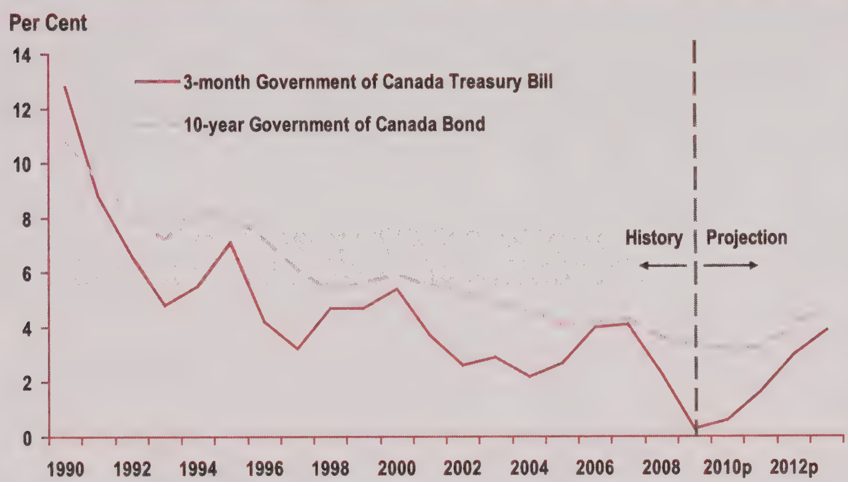
Canadian Dollar Chart 10

*Annual average.
Sources: Bank of Canada and Ontario Ministry of Finance.

INTEREST RATES

Interest rates for both businesses and consumers remain near record lows. The Bank of Canada increased its overnight policy interest rate to one per cent, from close to zero earlier this year, but is now expected to pause until 2011 before further increasing interest rates. In the medium term, the Bank of Canada is expected to continue raising interest rates to more normal levels. Interest rates affect consumer spending and business investment as well as the projected expense for interest on the Province's debt. For more information, see Chapter 4: *Borrowing and Debt Management*.

Interest Rates Chart 11



p = Ministry of Finance planning projection.
Sources: Bank of Canada and Ontario Ministry of Finance.

GLOBAL FINANCIAL RISKS

Global financial conditions remain unsettled. Earlier this year, financial market investors became increasingly concerned about the sustainability of sovereign debt in a number of European countries. This raised borrowing costs for those economies and resulted in global financial market volatility. Although the volatility has eased in recent months as those countries have announced measures to reduce budget deficits and have received financial support from the European Union, considerable uncertainty remains about the sustainability of their debt financing.

In Canada, the global financial crisis had considerably less impact than in other countries, leaving borrowing costs relatively low and credit growth solid. At the same time, the recovery in world commodity prices, together with Canada's sound economic fundamentals, has increased the attractiveness of Canadian financial assets among international investors, keeping bond rates low and supporting a rising Canadian dollar. The risk premium that banks require to lend to each other, rather than to hold risk-free Government of Canada treasury bills, has returned close to historically normal levels.

Credit Risk Has Diminished in Canada — Chart 12

Source: Bloomberg.

The Bank of Canada's Senior Loan Officer Survey, released in October 2010, reported continued improvement in business credit conditions for the fourth consecutive quarter. Household credit growth has been slowing but remains positive, supported by low borrowing costs. However, the rise in household debt relative to personal income means that some households could face increasing challenges meeting their debt obligations in the future, as interest rates move higher. Also, as household interest expenses rise, less money will be available for spending on goods and services.

IMPACT OF CHANGES IN GLOBAL FACTORS

Table 3 shows the implications of changes in the key external factors for Ontario's growth. The wide range shows the uncertainty and risks surrounding the Ontario economic outlook.

How Sustained Changes in Key Assumptions Would Affect Ontario Real GDP Growth — Table 3

(Percentage Point Decrease)

	First Year	Second Year
Canadian Dollar Appreciates by Five Cents US	0.1 to 0.8	0.5 to 1.2
World Crude Oil Prices Increase by $10 US per Barrel	0.1 to 0.3	0.1 to 0.3
U.S. Real GDP Growth Decreases by One Percentage Point	0.3 to 0.7	0.4 to 0.8
Canadian Interest Rates Increase by One Percentage Point	0.1 to 0.5	0.2 to 0.6

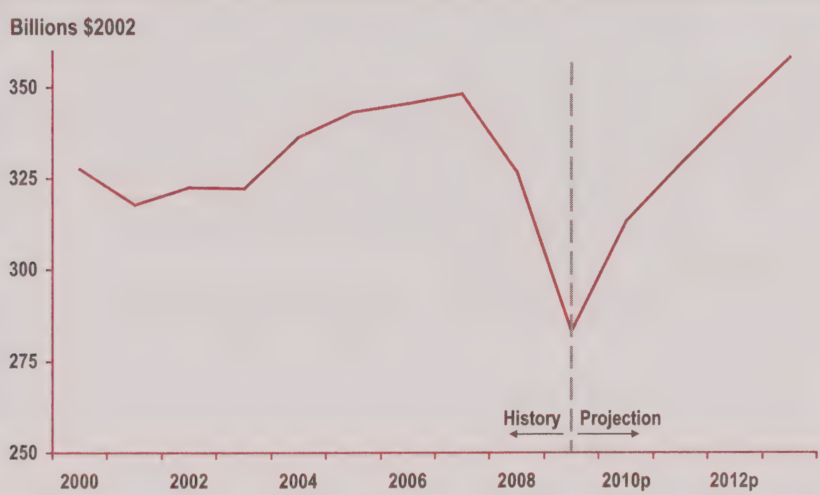
Source: Ontario Ministry of Finance.

OUTLOOK FOR ONTARIO'S ECONOMIC RECOVERY

Sustained moderate growth is expected for the Ontario economy. This outlook is based on continued growth in Ontario export markets and increasing demand for consumer goods and services as well as housing. Increased tax competitiveness as a result of Ontario's Tax Plan for Jobs and Growth will encourage business investment and jobs.

Ontario's export growth is reviving as the U.S. and global economies recover. Ontario's trade with the rest of the world will benefit from increased demand for commodities, industrial goods, and machinery and equipment, particularly from emerging Asian markets. As well, economic growth in other provinces will support interprovincial exports. Real exports are forecast to increase by 10.6 per cent in 2010 and an average of 4.6 per cent annually over 2011 to 2013, reflecting the improving global economic environment.

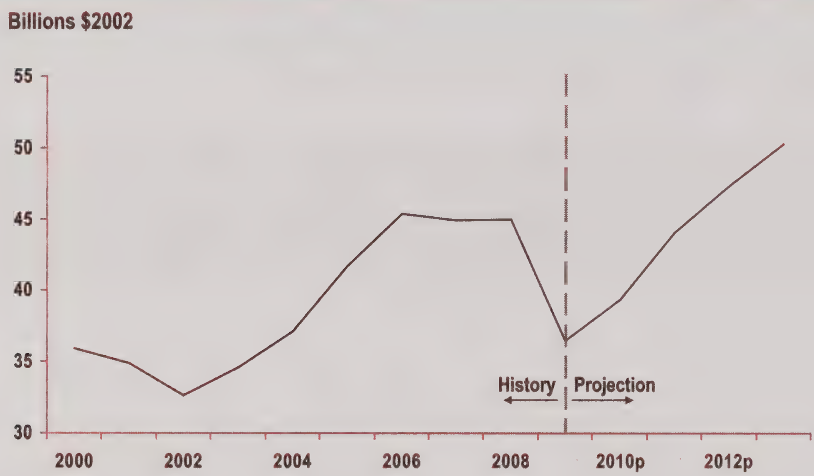
Exports of Goods and Services Growing — Chart 13



p = Ministry of Finance planning projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

Following the large decline last year, improving business conditions are expected to support a strong rebound in corporate profits, which are projected to rise by an average of 8.7 per cent annually between 2010 and 2013. The rebound in corporate profits, along with rising global demand and increased tax competitiveness, will support stronger business investment over the coming years. Investment in machinery and equipment is expected to increase by an average of 8.4 per cent annually between 2010 and 2013, while investment in non-residential construction is projected to increase by an average of 4.7 per cent annually.

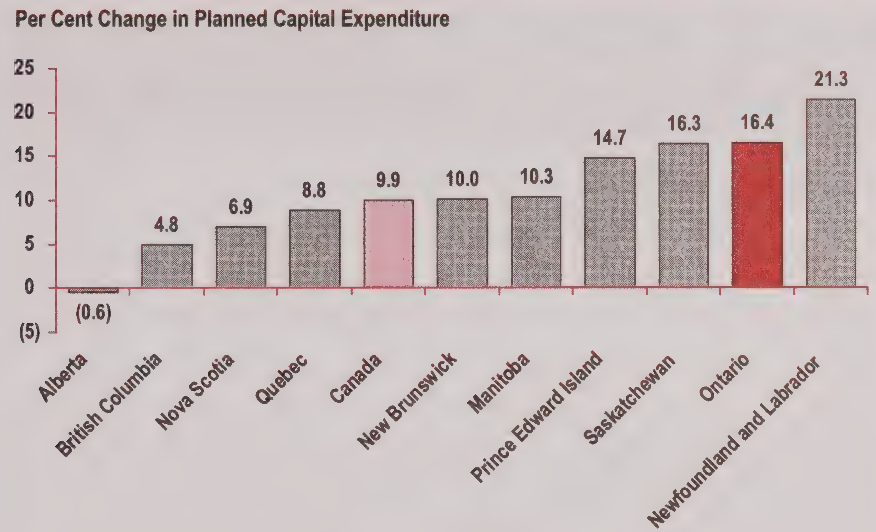
HST Encourages Investment in Machinery and Equipment — Chart 14



p = Ministry of Finance planning projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

Ontario's economic recovery continues to be supported by strong public-sector capital investments. Following strong growth in 2009 (14.0 per cent), capital expenditures by all levels of government in Ontario are expected to increase by a further 16.4 per cent in 2010, second among all provinces and well above the national average (9.9 per cent). For more information on Ontario government infrastructure investments, see Chapter 1: *Open Ontario*.

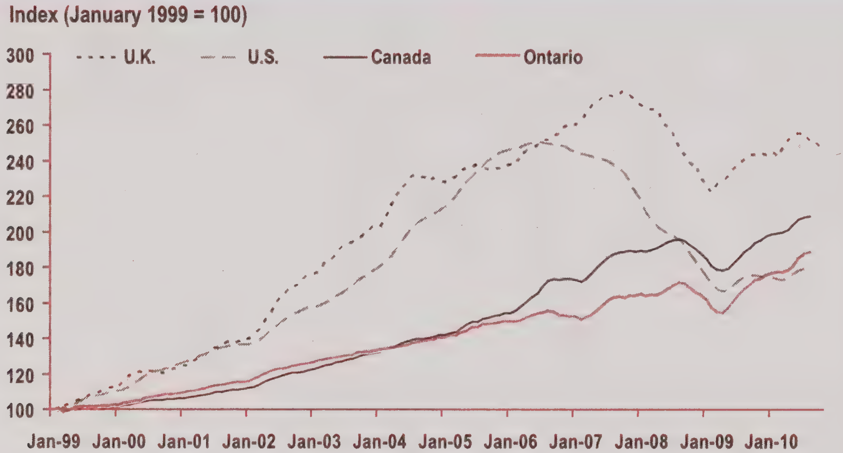
Recovery Supported by Strong Government Planned Investment for 2010 — Chart 15



Source: Statistics Canada, *Private and Public Investment in Canada, Intentions.*

Ontario housing prices rebounded following the economic downturn, surpassing previous peaks. This was supported by low interest rates and strong underlying demand. Because Ontario did not experience the same housing boom that occurred in other jurisdictions prior to the global financial crisis, prices did not fall as far during the recession. Since the recessionary low, existing home prices have increased by 22 per cent in Ontario and currently stand at about 10 per cent above their pre-recession level. Housing prices in the United States have increased by eight per cent since the trough but remain 28 per cent below the peak, while prices in the United Kingdom have increased by 11 per cent and remain at 12 per cent below the peak.

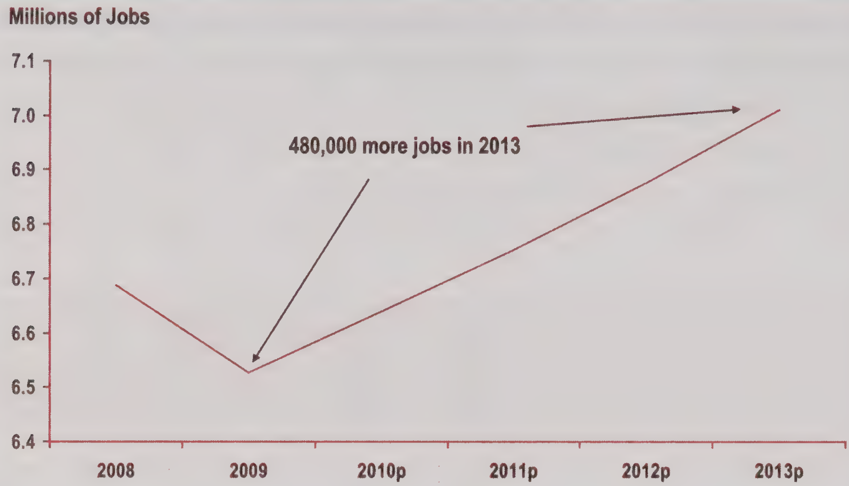
Modest Rise in Ontario House Prices Chart 16



Note: Nationwide House Price Index for the United Kingdom, S&P/Case Shiller 10-City Composite Home Price Index for the United States, Teranet–National Bank House Price Index for Canada, and Ontario Ministry of Finance calculations for Ontario.
Sources: Nationwide Building Society, Standard & Poor's, Teranet, National Bank and Ontario Ministry of Finance.

Strong underlying demand and a fundamentally sound housing market will support healthy growth in both housing sales and prices over the medium term. Sales are expected to increase by an average of one per cent annually between 2010 and 2013 and prices are expected to rise by an average of close to two per cent annually, in line with overall inflation. An increase in the number of households will mean a rise in demand for new homes, supporting a gradual pickup in housing starts, which are projected to increase from 60,000 units in 2010 to 68,000 units by 2013.

Nearly Half a Million Jobs Expected — Chart 17



p = Ministry of Finance planning projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

Employment is projected to increase by 1.7 per cent in 2010, up from the 1.1 per cent projected in the *2010 Budget*. The unemployment rate is projected to average 8.8 per cent in 2010, down from 9.0 per cent in 2009, as job creation outpaces the increase in the number of people looking for work. Job gains are expected to average 1.8 per cent annually over 2011 to 2013, resulting in 480,000 more jobs in 2013 than in 2009. Ontario's employment forecast is in line with private-sector forecasts.

Solid job gains this year have contributed to stronger-than-expected spending growth. Retail sales for 2010 are now forecast to grow by 4.5 per cent, up from the 3.9 per cent forecast in the *2010 Ontario Budget*. Similarly, real consumer spending is projected to increase by 2.8 per cent in 2010, up from 2.2 per cent in the *2010 Ontario Budget*. Retail sales are projected to grow by an average of 4.1 per cent annually over 2011 to 2013, and overall real consumer spending growth is expected to average 2.4 per cent annually.

Ontario's Consumer Price Index (CPI) inflation rate is expected to average 2.3 per cent in 2010, following a 0.4 per cent increase in 2009. Private-sector economists expect Ontario's CPI inflation rate to be 2.1 per cent in 2011. In 2012 and 2013, it is projected to average 2.0 per cent annually, the mid-point of the Bank of Canada's target range of one to three per cent.

DETAILS OF THE ONTARIO ECONOMIC OUTLOOK

The following table shows details of the Ministry of Finance's economic outlook for 2010 to 2013.

The Ontario Economy, 2008 to 2013 Table 4
(Per Cent Change)

	Actual		Projection			
	2008	2009	2010	2011	2012	2013
Real Gross Domestic Product	(0.9)	(3.6)	3.2	2.2	2.5	2.7
Personal Consumption	2.7	0.1	2.8	2.4	2.5	2.4
Residential Construction	(3.1)	(8.1)	10.5	(2.5)	4.3	4.0
Non-residential Construction	(2.5)	(18.4)	2.6	5.1	5.8	5.3
Machinery and Equipment	0.3	(19.0)	8.0	11.8	7.4	6.4
Exports	(6.2)	(13.2)	10.6	5.0	4.5	4.2
Imports	(2.1)	(10.8)	13.2	5.2	4.0	3.9
Nominal Gross Domestic Product	0.1	(1.1)	5.6	4.1	4.5	4.6
Labour Market Indicators						
Employment	1.4	(2.4)	1.7	1.7	1.8	1.9
Job Creation (000s)	94	(161)	114	113	124	130
Unemployment Rate (Per Cent)	6.5	9.0	8.8	8.4	7.8	7.2
Other Economic Indicators						
Retail Sales	3.9	(2.5)	4.5	4.1	4.2	4.0
Housing Starts (000s)	75.1	50.4	60.0	57.0	62.0	68.0
Personal Income	2.7	(0.2)	3.4	4.1	4.5	4.7
Labour Income	2.9	(1.0)	4.0	4.2	4.7	4.8
Corporate Profits	(10.9)	(13.6)	17.0	4.9	7.5	6.0
Consumer Price Index	2.3	0.4	2.3	2.1	2.0	2.0
Key External Variables						
Crude Oil ($ US per Barrel)	99.6	61.8	79.2	87.9	89.8	90.2
U.S. Real Gross Domestic Product	0.0	(2.6)	2.7	2.5	3.2	3.0
Canadian Dollar (Cents US)	93.7	87.6	96.9	98.0	98.5	98.5
3-month Treasury Bill Rate*	2.3	0.3	0.6	1.6	3.0	3.9
10-year Government Bond Rate*	3.6	3.3	3.2	3.2	4.1	4.8

*Government of Canada interest rates (per cent).
Sources: Statistics Canada, Canada Mortgage and Housing Corporation, Bank of Canada, New York Mercantile Exchange, U.S. Bureau of Economic Analysis, *Blue Chip Economic Indicators* and Ontario Ministry of Finance.

PRIVATE-SECTOR FORECASTS

The Ministry of Finance surveys private-sector forecasts to determine appropriate planning assumptions. Private-sector forecasters are calling, on average, for Ontario real GDP to grow by 3.4 per cent in 2010, 2.4 per cent in 2011, 2.7 per cent in 2012 and 2.9 per cent in 2013. The range of forecasts for 2011 is quite wide. RBC Financial Group is the most optimistic, calling for growth of 3.2 per cent, while CIBC World Markets is the most pessimistic, expecting growth of only 1.7 per cent.

Private-Sector Forecasts for Ontario Real GDP Growth Table 5
(Per Cent)

	2010	2011	2012	2013
BMO Capital Markets (November)	3.4	2.3	–	–
Centre for Spatial Economics (July)	3.7	2.9	2.5	2.4
CIBC World Markets (September)	3.4	1.7	2.6	–
Conference Board of Canada (October)	3.5	2.6	3.0	3.5
Desjardins Group (October & September)	3.4	2.5	2.0	2.5
IHS Global Insight (July)	3.5	3.0	3.1	2.8
RBC Financial Group (November)	3.5	3.2	–	–
Scotiabank Group (November)	3.5	2.0	–	–
TD Bank Financial Group (September)	3.2	1.9	2.6	–
University of Toronto (October)	3.2	1.8	3.1	3.2
Private-Sector Survey Average	**3.4**	**2.4**	**2.7**	**2.9**
Ontario's Planning Assumption	**3.2**	**2.2**	**2.5**	**2.7**

Sources: Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasts (November 8, 2010).

To ensure reasonable and accountable economic projections, the Ministry of Finance consults extensively with private-sector forecasters. As part of the *Fiscal Transparency and Accountability Act, 2004*, the Ontario Economic Forecast Council was established to provide advice on macroeconomic forecasts and assumptions. The Minister of Finance met with council members and other private-sector forecasters in the process of preparing the *2010 Ontario Economic Outlook and Fiscal Review*.

COMPARISON TO THE 2010 ONTARIO BUDGET FORECAST

Changes in Key Economic Forecast Assumptions Table 6
2010 Fall Economic Statement (FES) Compared to *2010 Budget*
(Per Cent Change)

	2010		2011		2012	
	2010 Budget	2010 FES	2010 Budget	2010 FES	2010 Budget	2010 FES
Real Gross Domestic Product	2.7	3.2	3.2	2.2	3.2	2.5
Nominal Gross Domestic Product	4.4	5.6	5.0	4.1	5.3	4.5
Retail Sales	3.9	4.5	4.6	4.1	4.7	4.2
Housing Starts (000s)	58.0	60.0	60.0	57.0	70.0	62.0
Personal Income	3.3	3.4	4.3	4.1	4.8	4.5
Labour Income	2.7	4.0	4.6	4.2	5.2	4.7
Corporate Profits	31.0	17.0	10.5	4.9	9.0	7.5
Employment	1.1	1.7	2.1	1.7	2.3	1.8
Job Creation (000s)	73	114	139	113	155	124
Key External Variables						
Crude Oil ($ US per Barrel)	82.1	79.2	85.7	87.9	86.9	89.8
U.S. Real Gross Domestic Product	3.1	2.7	3.0	2.5	3.4	3.2
Canadian Dollar (Cents US)	96.0	96.9	97.5	98.0	98.0	98.5
3-month Treasury Bill Rate*	0.6	0.6	2.2	1.6	3.5	3.0
10-year Government Bond Rate*	3.7	3.2	4.2	3.2	4.8	4.1

*Government of Canada interest rates (per cent).
Sources: Blue Chip Economic Indicators and Ontario Ministry of Finance.

CHAPTER 3

FISCAL OUTLOOK

HIGHLIGHTS

- ☑ 2010–11 deficit projection — $18.7 billion, down from the $19.7 billion forecast in the *2010 Budget*.
- ☑ 2010–11 deficit projection represents an almost 25 per cent improvement from the $24.7 billion deficit forecast a year ago for 2009–10.
- ☑ Province on track for deficit targets in 2011–12 and 2012–13.
- ☑ The government has laid out a realistic, responsible plan to cut the deficit in half within five years of its highest point and to eliminate it in eight years.
- ☑ Ontario needs a strong federal partner that will provide long-term, predictable support.

Section A: Overview

This chapter outlines Ontario's fiscal outlook for 2010–11 and the medium-term forecast for 2011–12 and 2012–13. In addition, it reviews federal support for the delivery of services important to Ontarians.

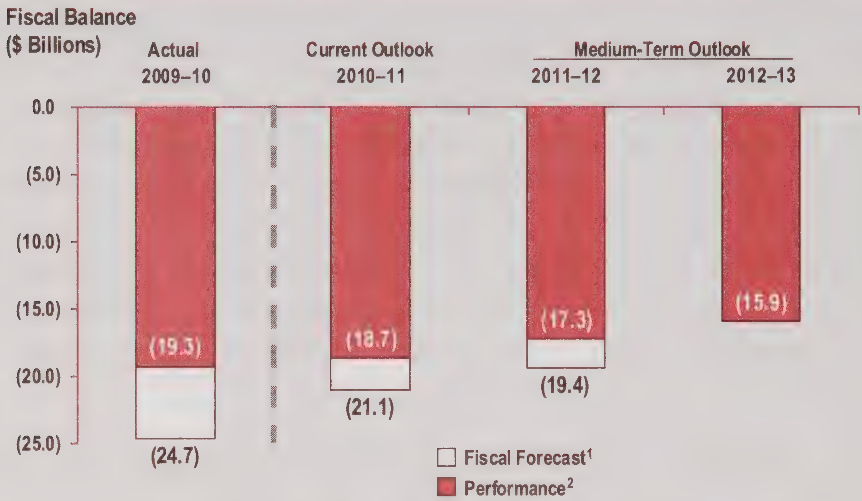
While the economy is gradually recovering, Ontario's families and businesses are still feeling the effects of the global financial and economic crisis. Key economic indicators have improved from lows posted during the recession, but most remain below pre-recession levels. Risks to the outlook include uncertainty regarding the U.S. economic recovery and the ongoing challenges in the global economy, such as sovereign debt concerns and trade imbalances (for further details, see Chapter 2: *Ontario's Economic Outlook*).

The government has already announced that it has exceeded its fiscal target for 2009–10, recording a deficit of $19.3 billion, down from the $24.7 billion deficit projected in the Fall *2009 Ontario Economic Outlook and Fiscal Review*.

The Province is now projecting an $18.7 billion deficit in 2010–11 — a $1.0 billion improvement from the *2010 Budget* and an almost 25 per cent improvement from the $24.7 billion deficit forecast a year ago for 2009–10.

The government is on track to meet the medium-term fiscal targets outlined in the *2010 Budget*. These include steadily declining deficits of $17.3 billion in 2011–12 and $15.9 billion in 2012–13, and incorporate the initiatives announced as part of this document, including the proposed Ontario Clean Energy Benefit. The government has laid out a realistic, responsible plan to cut the deficit in half within five years of its highest point and to eliminate it in eight years.

Ontario's Medium-Term Fiscal Outlook — Chart 1



[1] Based on the fiscal forecast in the Fall *2009 Ontario Economic Outlook and Fiscal Review.*
[2] Represents current forecast for 2010–11 through 2012–13. For 2009–10, actual results are presented.

Section B: 2010–11 Fiscal Performance

The *2010 Budget* and the *First Quarter Ontario Finances* projected a deficit of $19.7 billion for 2010–11. The government is now projecting a deficit of $18.7 billion for 2010–11 — a $1.0 billion improvement.

The improvement to the fiscal forecast for 2010–11 is mainly due to an increase in revenue resulting from stronger economic growth and the government's prudent fiscal management. Total program expense is unchanged from the 2010 Budget plan.

Total revenue has increased by 0.7 per cent while total expense has decreased by 0.2 per cent. Total expense is lower due to the fact that the Province's interest on debt expense projection is $0.2 billion below the 2010 Budget forecast.

The fiscal plan continues to maintain a $0.7 billion reserve in recognition of the global economic uncertainty that remains.

2010–11 In-Year Fiscal Performance Table 1
($ Millions)

	Budget Plan	Current Outlook	In-Year Change
Revenue	**106,867**	**107,656**	**789**
Expense			
Programs	115,896	115,896	–
Interest on Debt	9,961	9,715	(246)
Total Expense	**125,857**	**125,611**	**(246)**
Reserve	700	700	–
Surplus/(Deficit)	**(19,690)**	**(18,656)**	**1,035**

Note: Numbers may not add due to rounding.

2010–11 REVENUE CHANGES SINCE THE *2010 BUDGET*

The 2010–11 revenue outlook, at $107.7 billion, is $0.8 billion above the 2010 Budget forecast, largely reflecting stronger economic growth in 2010.

Summary of Revenue Changes Since the *Budget* Table 2
($ Millions)

		2010–11
Taxation		
Personal Income Tax	(1,130)	
Sales Tax	326	
Corporations Tax	696	
Education Property Tax	382	
Tobacco Tax	166	
Ontario Health Premium	151	
Land Transfer Tax	126	
Other Taxes	165	
Total Taxation		**882**
Government of Canada		76
Other Non-Tax Revenue		(169)
Total Revenue Changes Since the *Budget*		**789**

Note: Numbers may not add due to rounding.

Details of 2010–11 In-Year Revenue Changes

Key revenue changes since the 2010 Budget forecast include:

- ☑ **Personal Income Tax** (PIT) revenues are projected to be $1,130 million, or 4.4 per cent, lower due to weaker 2009 revenues indicated by tax returns processed since the *2010 Budget*. Stronger 2010 employment and wage growth only partially offsets the weaker 2009 amounts.
- ☑ **Sales Tax** revenues are forecast to be $326 million, or 1.7 per cent, higher largely due to stronger projected growth in consumer spending during 2010. This stronger growth is partially offset by a revenue-neutral change in the reporting of the energy component of the proposed Ontario Energy and Property Tax Credit (OEPTC), whereby in 2010–11 the credit would be netted against Sales Tax rather than Education Property Tax (EPT) as assumed at the time of the *Budget*. This would result in an offsetting increase in EPT. (For further information on this tax credit, see Chapter 5: *Tax and Pension Modernization*.)
- ☑ **Corporations Tax** (CT) revenues are projected to be $696 million, or 9.4 per cent, higher mainly due to stronger 2009 revenues indicated by tax returns processed since the *Budget*. Weaker 2010 profit growth only partially offsets the stronger 2009 amounts.
- ☑ **Education Property Tax** (EPT) is up $382 million, largely due to the tax credit reporting change noted above. This is partially offset by a revised estimate of the remaining property tax credit to be netted against EPT.
- ☑ **Tobacco Tax** revenues are projected to be $166 million higher due to improved enforcement activities.
- ☑ **Ontario Health Premium** revenues are expected to be $151 million, or 5.3 per cent, higher largely due to stronger 2009 revenues and faster 2010 employment and wage growth.
- ☑ **Land Transfer Tax** revenues are projected to be $126 million, or 12.3 per cent, higher reflecting the strength in the Ontario housing market earlier in the year.

- ☑ **Other Taxes** are forecast to be a combined $165 million higher, largely due to stronger 2010 economic growth. This includes an increase in the revenue outlook for Fuel Tax ($81 million) and Employer Health Tax ($46 million).
- ☑ The $76 million increase in **Government of Canada** transfers is due to tobacco settlement claims that were previously announced in the *First Quarter Ontario Finances*.
- ☑ **Other Non-Tax Revenue** is down $169 million due to updated information based on the current forecast.

2010–11 EXPENSE CHANGES SINCE THE *2010 BUDGET*

Consistent with the government's approach to controlling the rate of growth in spending while protecting core public services, total program expense is unchanged from the 2010 Budget plan. Total expense in 2010–11 is currently projected to be $125,611 million — 0.2 per cent lower than the 2010 Budget forecast, due to a lower interest on debt expense projection than forecast in the *2010 Budget*, reflecting lower interest rates than those projected in the *Budget*.

Summary of Expense Changes Since the *Budget* — Table 3
($ Millions)

	2010–11
Key Program Expense Changes	
Ontario Clean Energy Benefit	300.0
Home Energy Savings Program	85.1
Extra Forest Firefighting	57.1
Other Program Expenses	8.3
Contingency Funds	(450.5)
Total Program Expense Changes	–
Interest on Debt Expense Forecast Change	(246.2)
Total Expense Changes Since the *Budget*	**(246.2)**

Details of 2010–11 In-Year Expense Changes

Key 2010–11 expense changes from the *2010 Budget* forecast include:

- ☑ An increase of $300.0 million to provide direct relief to eligible consumers through the proposed **Ontario Clean Energy Benefit**, providing a credit equal to 10 per cent of the after-tax cost of electricity on their bills, effective January 1, 2011. Eligible consumers include residential, farm, small business and other small users who consume less than 250,000 kilowatt hours per year.
- ☑ An $85.1 million increase to address increased demand in the **Home Energy Savings Program** and the Ontario Solar Thermal Heating Initiative.
- ☑ An increase of $57.1 million for **extra forest firefighting**, to provide additional resources during the 2010 fire season, which began earlier than usual this year.
- ☑ An increase in all **other program expenses** of $8.3 million, including items such as disaster relief support for tornado damage in Essex County and monsoon flooding in Pakistan.

Interest on Debt expense, at $9,715 million, is $246.2 million lower than forecast in the *2010 Budget*. This reduction primarily reflects lower interest rates than those projected at the time of the *Budget*.

Section C: Ontario's Medium-Term Fiscal Outlook

MEDIUM-TERM REVENUE OUTLOOK

The medium-term revenue forecast reflects the Ministry of Finance's economic outlook and the estimated impact of government policy measures.

Summary of Medium-Term Revenue Outlook ($ Billions) — Table 4

	Actual	Projected Outlook		
Revenue	**2009–10**	**2010–11**	**2011–12**	**2012–13**
Taxation Revenue	64.9	72.5	75.2	79.2
Government of Canada	18.6	23.8	21.1	21.1
Income from Government Business Enterprises	4.2	4.2	4.4	4.6
Other Non-Tax Revenue	8.0	7.2	6.9	6.9
Total Revenue	**95.8**	**107.7**	**107.6**	**111.8**

Note: Numbers may not add due to rounding.

The medium-term **Taxation Revenue** outlook reflects current revenue information and projections for the Ontario economy.

The outlook for **Government of Canada** transfers reflects current federal–provincial funding arrangements.

The outlook for **Income from Government Business Enterprises** is unchanged from the *2010 Budget*.

The forecast for **Other Non-Tax Revenue** is based on information provided by government ministries and provincial agencies.

Medium-Term Revenue Changes Since the *2010 Budget*

Summary of Medium-Term Revenue Changes Since the *Budget* Table 5
($ Billions)

Source of Change	2010–11	2011–12	2012–13
Economic Growth Outlook	1.5	1.0	0.6
Lower 2009–10 Tax Base	(0.7)	(0.7)	(0.7)
Government of Canada	0.1	(0.4)	–
Other Non-Tax Revenue	(0.2)	(0.1)	(0.1)
Total Revenue Changes	**0.8**	**(0.2)**	**(0.1)**

Note: Numbers may not add due to rounding.

The revenue outlook is up in 2010–11 due to stronger economic growth in 2010. The outlook for 2011–12 and 2012–13 remains close to the 2010 Budget outlook.

A stronger 2010 **economic growth outlook** increases taxation revenues in 2010–11. This increase diminishes over the 2011–12 and 2012–13 period due to weaker economic growth projected for those years.

A **lower 2009–10 tax base** is largely due to weaker Personal Income Tax revenues reported in the *2009–10 Public Accounts*. This lowers the revenue base upon which projected growth is applied, resulting in lower revenues over the forecast period.

Changes to **Government of Canada** transfers in 2011–12 reflect updated estimates based on current agreements and funding arrangements with the federal government.

Other Non-Tax Revenue changes largely reflect updated information based on the current forecast.

MEDIUM-TERM EXPENSE OUTLOOK

A key element of the 2010 Budget plan to eliminate the deficit was a commitment to manage down expense while following through on policies that support jobs and growth to ensure future opportunity and prosperity. The government is committed to maintaining a prudent and responsible approach to managing growth in expense, while preserving public services.

The medium-term expense outlook is consistent with the 2010 Budget plan, and reflects the impact of the following adjustments:

- ☑ providing direct relief to eligible consumers through the proposed Ontario Clean Energy Benefit;
- ☑ a lower interest on debt forecast, as a result of lower interest rates than those projected in the *Budget*; and
- ☑ the measures the government is taking to manage spending and reduce costs.

The government remains committed to ongoing expenditure management and has a long track record of effectively realizing savings and efficiencies (for further details, see Chapter 1, Section B: *Managing Responsibly*). As outlined in the *2010 Budget*, the government has continued its comprehensive review of all government programs and services. To date, this review has identified over $260 million in potential savings through both programming and administrative expenditure reductions. The government will continue to identify program efficiencies to ensure the rate of expense growth remains well below the rate of growth in revenue over the medium term.

MEDIUM-TERM FISCAL OUTLOOK

The Province is on track to meet the fiscal targets established in the *2010 Budget*. Ontario's fiscal outlook includes steadily declining deficits of $18.7 billion in 2010–11, $17.3 billion in 2011–12 and $15.9 billion in 2012–13.

In recognition of the ongoing challenges in the global economy, such as sovereign debt concerns and trade imbalances, as well as the uncertain outlook for the U.S. economic recovery, the medium-term fiscal outlook continues to include a reserve of $1.0 billion in each of 2011–12 and 2012–13.

Medium-Term Fiscal Plan and Outlook — Table 6
($ Billions)

	Actual	Projected Outlook		
	2009–10	2010–11	2011–12	2012–13
Total Revenue	**95.8**	**107.7**	**107.6**	**111.8**
Expense				
Programs	106.3	115.9	113.1	114.5
Interest on Debt	8.7	9.7	10.8	12.2
Total Expense	**115.1**	**125.6**	**123.9**	**126.7**
Reserve	–	0.7	1.0	1.0
Surplus/(Deficit)	**(19.3)**	**(18.7)**	**(17.3)**	**(15.9)**

Note: Numbers may not add due to rounding.

Risks to the Fiscal Outlook

Although economic recovery is underway in Ontario, significant risks remain that could cause variances to both the Province's revenue and expense outlooks.

Detailed information on revenue and expense risks and sensitivities can be found in Chapter II of the *2010 Budget*.

Section D: Federal Partner

Through the recent global recession, Ontario and the federal government worked closely together to support the economy. Both levels of government coordinated investment in infrastructure, provided financial support to the auto industry and worked together on sales tax harmonization. The federal government also provided additional support for skills training.

The Province's Open Ontario plan will help Ontarians increase productivity and promote economic growth. The plan includes new investments in education and continuing investments in labour-market training and health care. During a time of continued economic uncertainty, the Province seeks the federal government's ongoing support in strengthening Ontario and Canada.

Ontario has been asking for fairness in all transfers and this should include programs and supports in the areas of immigration and labour-market training.

A NEED FOR IMMIGRANT SETTLEMENT AND SKILLS TRAINING SUPPORT

The Province looks to the federal government to provide adequate settlement and training support for new Canadians in Ontario. To date, the federal government has underspent its commitments through the Canada–Ontario Immigration Agreement by more than $200 million. The federal government must fulfill this commitment and flow this money to immigrant service agencies immediately. This is particularly important considering immigrants will account for a significant and rising share of labour-force growth in the coming years. Ontario is committed to supporting the success of its immigrants. To improve outcomes for immigrants who choose Ontario as their home, the federal government must immediately begin negotiations on a new agreement with Ontario — one that would give the Province greater policy control and full funding support for immigrant settlement and training.

In its 2009 budget, the federal government increased funding for labour-market programs through time-limited enhancements that provided much-needed assistance to workers affected by the recession. These enhancements, which will expire on March 31, 2011, provided additional support of approximately $314 million per year in 2009–10 and 2010–11. Ending this funding means that tens of thousands of Ontarians will lose the opportunity to develop labour-market skills that are crucial in the current economic climate. Ontario is asking the federal government to extend the labour-market training enhancements to provide Ontarians with greater opportunities to transition their skills to the new economy.

A NEED FOR RELIABLE LONG-TERM FUNDING SUPPORT

The federal government has used time-limited funding to support the delivery of provincial services. When federal support for provincial programs such as health care declines over time or ends, it leaves Ontario with significant financial pressures to continue delivering these much-needed services. Time-limited federal funding reflects a lack of commitment to the needs of Ontario families. This approach hurts the province's prospects for a stronger Ontario and a stronger Canada.

Provincial governments are working together to manage the cost of health care services, including work on the pan-Canadian procurement of drugs and medical equipment, and sharing of clinical best practices. To continue to deliver the quality services on which Ontarians rely, Ontario needs the federal government to renew its commitment to fund the reduction of health care wait times.

Provinces need a strong and sustained federal commitment beyond 2013–14 to help them plan to meet future demand for health care, postsecondary education and social services. The growth of major federal transfers in support of health, postsecondary education and social programs is currently set in federal legislation until the end of 2013–14. Ontario is encouraged that the federal fiscal plan provides for growth in major federal transfers at current legislated rates for an additional two years to 2015–16. The future of universal health care depends on the federal government providing adequate financial support to provinces and territories.

AN ONGOING PARTNERSHIP

The federal government and interested provinces and territories are working together to establish a Canadian Securities Regulator. In order to meet the needs of Canadian capital markets, the national regulator should be centred in Toronto, Canada's financial capital.

Ontario wants a federal partner that supports the initiatives the Province is implementing in response to new and emerging economic, demographic and social realities that will help with its long-term economic transformation. Ontario looks to the federal government for continued support to be a true partner in the areas of health care and postsecondary education, and to work with Ontario to support its immigrants as well as its economic plan going forward.

Section E: Details of Ontario's Finances

This section provides information on the Province's current fiscal outlook, historical financial performance and key fiscal indicators.

Medium-Term Fiscal Plan and Outlook Table 7
($ Billions)

	Actual	Projected Outlook		
	2009–10	2010–11	2011–12	2012–13
Revenue	**95.8**	**107.7**	**107.6**	**111.8**
Expense				
Programs	106.3	115.9	113.1	114.5
Interest on Debt[1]	8.7	9.7	10.8	12.2
Total Expense	**115.1**	**125.6**	**123.9**	**126.7**
Reserve	–	0.7	1.0	1.0
Surplus/(Deficit)	**(19.3)**	**(18.7)**	**(17.3)**	**(15.9)**
Net Debt[2]	193.6	219.5	244.5	267.4
Accumulated Deficit[2]	131.0	149.6	166.9	182.8

[1] Interest on Debt expense is net of interest capitalized during construction of tangible capital assets of $0.1 billion in 2009–10, $0.2 billion in 2010–11, $0.2 billion in 2011–12 and $0.2 billion in 2012–13.

[2] Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the surplus/deficit of the Province plus the change in non-financial assets; and the change in the fair value of the Ontario Nuclear Funds. Accumulated Deficit is calculated as the difference between liabilities and total assets. The annual change in the Accumulated Deficit is equal to the surplus/deficit plus the change in the fair value of the Ontario Nuclear Funds.

Note: Numbers may not add due to rounding.

Revenue
($ Millions)

Table 8

	2007–08	2008–09	Actual 2009–10	Current Outlook 2010–11
Taxation Revenue				
Personal Income Tax	25,472	25,738	23,393	24,812
Sales Tax[1]	16,745	17,021	17,059	19,463
Corporations Tax	12,990	6,748	5,615	8,086
Education Property Tax	5,754	5,696	5,626	5,698
Employer Health Tax	4,605	4,617	4,545	4,747
Ontario Health Premium	2,713	2,776	2,763	3,022
Gasoline Tax	2,360	2,323	2,336	2,378
Land Transfer Tax	1,363	1,013	1,015	1,149
Tobacco Tax	1,127	1,044	1,083	1,132
Fuel Tax	733	698	658	733
Beer and Wine Tax (replacing Fees)[2]	–	–	–	414
Electricity Payments-In-Lieu of Taxes	546	830	516	481
Other Taxes	481	352	322	368
	74,889	**68,856**	**64,931**	**72,483**
Government of Canada				
Canada Health Transfer	8,487	8,942	9,791	10,217
Canada Social Transfer	3,778	4,079	4,204	4,327
Equalization	–	–	347	972
Infrastructure Programs	207	151	990	2,146
Labour Market Programs	664	797	1,253	1,207
Social Housing	525	520	498	487
Wait Times Reduction Fund	468	235	97	97
Other Federal Payments	2,468	1,867	1,440	4,306
	16,597	**16,591**	**18,620**	**23,759**
Government Business Enterprises				
Ontario Lottery and Gaming Corporation	1,857	1,921	1,924	1,859
Liquor Control Board of Ontario	1,374	1,410	1,440	1,465
Ontario Power Generation Inc./Hydro One Inc.	1,214	713	854	844
Other Government Enterprises	(8)	(2)	(23)	(4)
	4,437	**4,042**	**4,195**	**4,164**
Other Non-Tax Revenue				
Reimbursements	1,464	1,379	1,429	1,095
Vehicle and Driver Registration Fees	1,051	1,034	1,057	1,059
Electricity Debt Retirement Charge	982	970	907	916
Power Supply Contract Recoveries	929	953	1,409	1,385
Sales and Rentals	553	733	647	673
Other Fees and Licences	677	683	717	736
Beer and Wine Fees (replaced by Tax)[2]	466	459	451	115
Net Reduction of Power Purchase Contract Liability	398	373	348	339
Royalties	193	205	228	195
Miscellaneous Other Non-Tax Revenue	943	655	854	737
	7,656	**7,444**	**8,047**	**7,250**
Total Revenue	**103,579**	**96,933**	**95,793**	**107,656**

1 Sales Tax in 2010–11 includes Retail Sales Tax and Harmonized Sales Tax. Effective July 1, 2010, the Retail Sales Tax was replaced with a value-added tax and combined with the federal Goods and Services Tax to create a federally administered Harmonized Sales Tax.

2 Beer and Wine Tax replaces reduced Beer and Wine Fees (–$343 million) and the reduced sales tax on alcohol (–$71 million). There is no net new revenue for the Province.

Total Expense
($ Millions)

Table 9

Ministry Expense	2007–08	2008–09	Actual 2009–10	Current Outlook 2010–11
Aboriginal Affairs[1]	33	55	67	71.0
Agriculture, Food and Rural Affairs[1]	731	877	1,265	1,288.1
Attorney General	1,650	1,669	1,584	1,709.8
Board of Internal Economy	257	188	187	195.0
Children and Youth Services	3,733	4,069	4,430	4,666.5
Citizenship and Immigration	90	89	101	112.4
Community and Social Services	7,549	8,001	8,629	9,263.2
Community Safety and Correctional Services	1,982	2,121	2,201	2,690.6
Consumer Services	54	58	57	60.0
Economic Development and Trade[1]	328	245	223	349.8
Education[1]	18,733	19,626	20,337	21,364.6
Energy and Infrastructure[1,2]	389	251	292	723.6
Environment[1]	347	363	360	383.0
Executive Offices	36	35	34	34.9
Finance[1]	380	602	491	651.7
Francophone Affairs, Office of	5	5	5	5.1
Government Services[1]	916	939	1,106	1,102.4
Health and Long-Term Care	37,744	40,352	42,730	45,352.4
Health Promotion and Sport[1]	364	382	381	408.7
Labour	170	177	179	192.2
Municipal Affairs and Housing[1]	744	756	694	686.4
Natural Resources	629	621	639	666.2
Northern Development, Mines and Forestry	506	645	653	857.3
Research and Innovation[1]	301	295	333	411.5
Revenue[1]	641	635	1,129	1,008.1
Tourism and Culture[1]	584	566	668	720.0
Training, Colleges and Universities[1]	5,787	6,081	6,479	7,154.9
Transportation[1]	1,892	2,038	2,097	2,294.6
Interest on Debt[3]	8,914	8,566	8,719	9,715.0
Other Expense[1]	7,490	3,035	8,985	12,646.5
Year-End Savings[4]	–	–	–	(1,174.5)
Total Expense	**102,979**	**103,342**	**115,055**	**125,611.1**

1 Details on other ministry expense can be found in Table 10, Other Expense.

2 Future updates will reflect the impact of previously announced ministry restructuring details.

3 Interest on debt is net of interest capitalized during construction of tangible capital assets of $148 million in 2009–10 and $212 million in 2010–11.

4 As in past years, the Year-End Savings provision reflects anticipated underspending that has historically arisen at year-end due to factors such as program efficiencies, and changes in project startups and implementation plans.

Note: Numbers may not add due to rounding.

Other Expense
($ Millions)

Table 10

Ministry Expense	2007–08	2008–09	Actual 2009–10	Current Outlook 2010–11
Aboriginal Affairs				
One-Time Expense for the First Nations Gaming Agreement	201	–	–	–
Agriculture, Food and Rural Affairs				
One-Time Extraordinary Assistance	274	–	–	–
Time-Limited Investments in Infrastructure	–	–	618	1,898.0
Time-Limited Assistance	76	13	27	9.0
Economic Development and Trade				
One-Time Investments	152	–	–	–
Education				
Teachers' Pension Plan[1]	342	50	255	525.0
Energy and Infrastructure				
Capital Contingency Fund	–	–	–	200.0
One-Time Investments in Municipal Infrastructure	450	–	–	–
Ontario Clean Energy Benefit	–	–	–	300.0
Environment				
One-Time Investments	–	68	37	–
Finance				
One-Time Automotive Sector Support[2]	–	75	3,022	–
Investing in Ontario Act Investments	1,149	–	–	–
Ontario Municipal Partnership Fund	907	905	781	645.5
Operating Contingency Fund	–	–	–	1,389.9
Pension Benefit Guarantee Fund	–	–	500	–
Power Supply Contract Costs	929	953	1,409	1,385.0
Government Services				
Pension and Other Employee Future Benefits	531	971	949	1,102.0
Health Promotion and Sport				
Time-Limited Investments in Infrastructure	–	–	48	345.1
Municipal Affairs and Housing				
Time-Limited Investments in Municipal Social and Affordable Housing Stock	100	–	585	659.3
One-Time Assistance	–	–	–	1.0
Research and Innovation				
One-Time Investments	87	–	5	–
Revenue				
Harmonized Sales Tax Transitional Support	–	–	–	3,200.0
Tourism and Culture				
One-Time Investments	57	–	–	29.0
Training, Colleges and Universities				
Time-Limited Investments	699	–	559	957.7
Transportation				
One-Time Transit and Infrastructure Investments	1,536	–	190	–
Total Other Expense	**7,490**	**3,035**	**8,985**	**12,646.5**

[1] Numbers reflect PSAB pension expense. Ontario's matching contributions to the plan grow from $808 million in 2007–08 to $1,245 million in 2009–10 and $1,307 million in 2010–11.

[2] Reflects the fiscal impact of Ontario's $4.6 billion in support to the automotive industry.

Note: Numbers may not add due to rounding.

2010–11 Infrastructure Expenditures
($ Millions)

Table 11

Sector	Total Infrastructure Expenditures 2009–10 Actual	2010–11 Current Outlook: Investment in Capital Assets	2010–11 Current Outlook: Transfers and Other Infrastructure Expenditures[1]	2010–11 Current Outlook: Total Infrastructure Expenditures
Transportation				
Transit	1,724	1,381	355	1,735
Highway Expansion/High-Occupancy Vehicle Lanes	1,020	1,018	–	1,018
Highway and Bridge Rehabilitation	771	1,017	–	1,017
Other Transportation[2]	720	1,022	117	1,139
Health				
Hospitals	2,541	2,065	10	2,075
Other Health	318	311	143	454
Education–School Boards	1,632	1,657	–	1,657
Postsecondary				
Colleges	285	146	–	146
Universities	83	–	98	98
Water/Environment	500	41	306	348
Municipal and Local Infrastructure	448	34	493	527
Justice	220	641	29	670
Other	702	697	384	1,082
Short-Term Stimulus Investments	1,616	697	3,679	4,376
Subtotal	**12,582**	**10,728**	**5,614**	**16,342**
Less: Other Partner Funding[3]	620	464	–	464
Total Excluding Partner Funding	**11,961**	**10,264**	**5,614**	**15,878**
Less: Flow-Throughs[4]	1,133	487	2,179	2,666
Total Provincial Expenditure[5]	**10,829**	**9,776**	**3,435**	**13,212**

1 Mainly consists of transfers for capital purposes to municipalities and universities, and expenditures for capital repairs. These expenditures are included in the Province's total expense in Table 9.

2 Other Transportation includes planning activities, property acquisition, highway service centres and other infrastructure programs (e.g., municipal/local roads, remote airports).

3 Third-party contributions to capital investment in the consolidated sectors (schools, colleges and hospitals).

4 Mostly federal government transfers for capital investments.

5 Total Provincial Infrastructure Expenditure includes acquisitions of tangible capital assets by the Province and consolidated sectors (schools, colleges and hospitals). The share of 2009–10 Total Provincial Expenditure attributable to Investment in Capital Assets is $8.3 billion.

Note: Numbers may not add due to rounding.

Ten-Year Review of Selected Financial and Economic Statistics[1]

($ Millions)

	2001–02	2002–03[2]	2003–04
Financial Transactions			
Revenue	**72,307**	**74,675**	**74,269**
Expense			
Programs	61,595	64,864	70,148
Interest on Debt[4]	10,337	9,694	9,604
Total Expense	**71,932**	**74,558**	**79,752**
Reserve	–	–	–
Surplus/(Deficit)	**375**	**117**	**(5,483)**
Net Debt[5,6]	132,121	132,647	138,816
Accumulated Deficit[7]	132,121	118,705	124,188
Gross Domestic Product (GDP) at Market Prices	453,701	477,763	493,081
Personal Income	361,187	369,420	381,127
Population — July (000s)	11,897	12,091	12,242
Net Debt per Capita (dollars)	11,106	10,971	11,339
Personal Income per Capita (dollars)	30,360	30,553	31,132
Interest on Debt as a per cent of Revenue	14.3	13.0	12.9
Net Debt as a per cent of GDP	29.1	27.8	28.2
Accumulated Deficit as a per cent of GDP	29.1	24.8	25.2

1 Revenue and expense have been restated to reflect a fiscally neutral accounting change for the revised presentation of education property taxes, as described in the *2010 Ontario Budget*.

2 Starting in 2002–03, investments in major tangible capital assets owned by the Province (land, buildings and transportation infrastructure) have been capitalized and amortized to expense over their useful lives. Starting in 2009–10, investments in minor tangible capital assets owned by the Province were capitalized and amortized to expense. All capital assets owned by consolidated organizations are being accounted for in a similar manner.

3 Starting in 2005–06, the Province's financial reporting was expanded to include hospitals, school boards and colleges. Total expense prior to 2005–06 has not been restated to reflect expanded reporting.

4 Interest on Debt is net of interest capitalized during construction of tangible capital assets of $148 million in 2009–10 and $212 million in 2010–11.

Table 12

2004–05	2005–06[3]	2006–07	2007–08	2008–09	Actual 2009–10[2]	Current Outlook 2010–11
83,861	**90,305**	**96,640**	**103,579**	**96,933**	**95,793**	**107,656**
76,048	80,988	85,540	94,065	94,776	106,336	115,896
9,368	9,019	8,831	8,914	8,566	8,719	9,715
85,416	**90,007**	**94,371**	**102,979**	**103,342**	**115,055**	**125,611**
–	–	–	–	–	–	700
(1,555)	**298**	**2,269**	**600**	**(6,409)**	**(19,262)**	**(18,656)**
140,921	152,702	153,742	156,616	169,585	193,589	219,462
125,743	109,155	106,776	105,617	113,238	130,957	149,613
516,106	537,383	560,576	583,946	584,460	578,183	610,561
400,994	419,457	442,736	466,051	478,696	477,641	493,881
12,391	12,528	12,665	12,793	12,932	13,065	13,211
11,373	12,188	12,139	12,242	13,113	14,817	16,612
32,363	33,480	34,956	36,430	37,016	36,559	37,385
11.2	10.0	9.1	8.6	8.8	9.1	9.0
27.3	28.4	27.4	26.8	29.0	33.5	35.9
24.4	20.3	19.0	18.1	19.4	22.6	24.5

[5] Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the surplus/deficit of the Province plus the change in non-financial assets and, effective April 1, 2007, the change in the fair value of the Ontario Nuclear Funds.

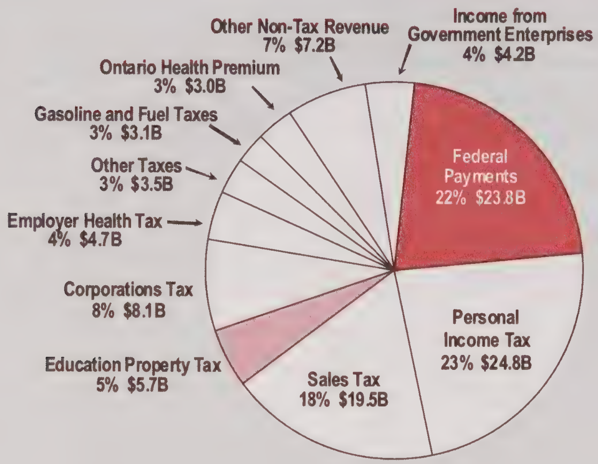
[6] Starting in 2009–10, Net Debt includes the net debt of hospitals, school boards and colleges consistent with Public Sector Accounting Board standards. For comparative purposes, Net Debt has been restated from 2005–06 to 2008–09 to conform with this revised presentation. Net Debt has also been restated in 2003–04, 2004–05 and 2005–06 to reflect the value of hydro corridor lands transferred to the Province from Hydro One Inc.

[7] Accumulated Deficit is calculated as the difference between liabilities and total assets. The annual change in the Accumulated Deficit is equal to the surplus/deficit plus, effective April 1, 2007, the change in the fair value of the Ontario Nuclear Funds. For further information, visit http://www.fin.gov.on.ca/en/budget/paccts/2010.

Sources: Ontario Ministry of Finance and Statistics Canada.

Composition of Revenue 2010–11

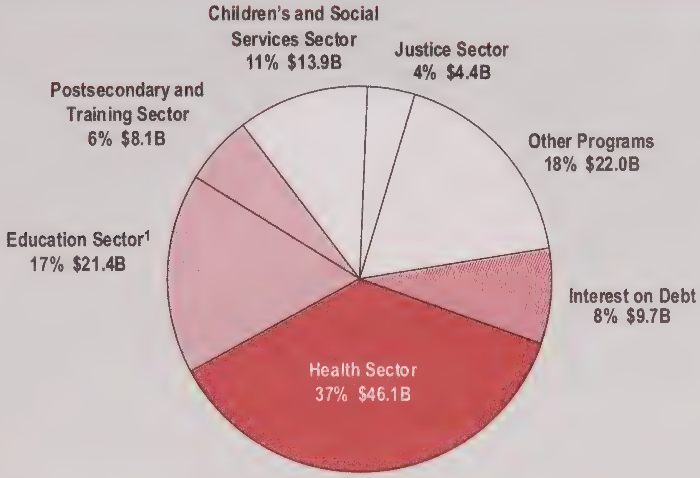
Chart 2



Note: Numbers may not add due to rounding.

Composition of Total Expense
2010–11

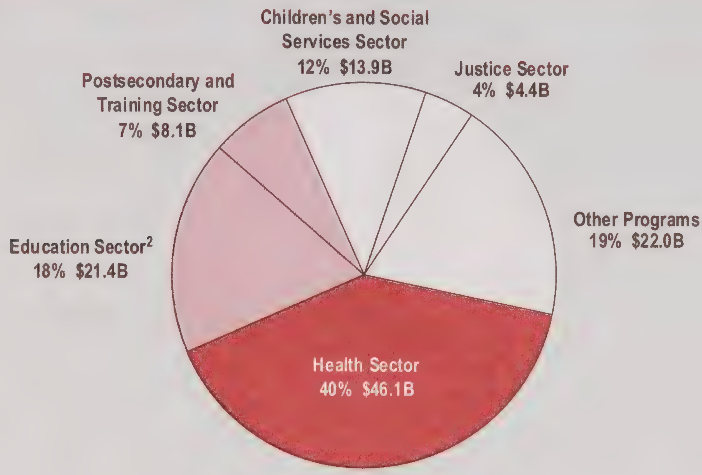
Chart 3



[1] Excludes Teachers' Pension Plan.
Note: Numbers may not add due to rounding.

Composition of Program Expense[1] 2010–11

Chart 4



[1] Program expense equals total expense minus interest on debt.

[2] Excludes Teachers' Pension Plan.

Note: Numbers may not add due to rounding.

Chapter 4

Borrowing and Debt Management

HIGHLIGHTS

- ☑ The total funding requirement for 2010–11 has declined by $2 billion since the *2010 Ontario Budget*, due to the $1 billion decline in the projected deficit and the $1 billion payment to the Province from the proposed Teranet agreement.
- ☑ Interest on debt (IOD) expense, at $9,715 million, is $246 million less than forecast in the *2010 Budget*. This reduction in IOD primarily reflects the impact of lower interest rates.
- ☑ Total debt is projected to be $236.5 billion as at March 31, 2011.
- ☑ Net debt is projected to be $219.5 billion as at March 31, 2011.

LONG-TERM PUBLIC BORROWING

The forecast long-term public borrowing requirement for 2010–11 is $38.7 billion. As at November 4, 2010, $27.4 billion, or 71 per cent, of the long-term borrowing requirement was completed. This figure includes Ontario Savings Bond sales of $1.1 billion.

The Province maintained a flexible approach to borrowing, monitoring both domestic and international capital markets for cost-effective borrowing opportunities. The *2010 Ontario Budget* announced that the Province planned to borrow at least 50 per cent in the domestic market. Since then, the Province has been responsive to strong demand in Canada, allowing it to increase the proportion borrowed domestically compared to recent years.

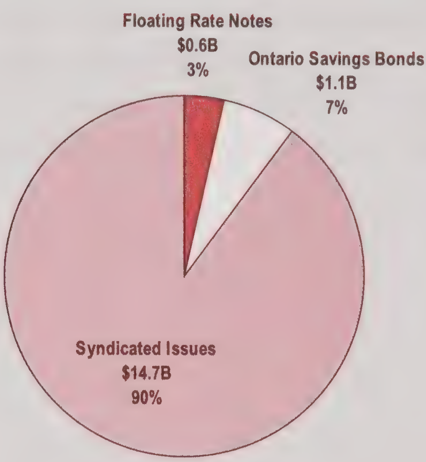
The Province has extended the term of its debt in response to robust demand from investors for long-term Ontario debt denominated in Canadian dollars. This term extension reduces refinancing risks and will mitigate the impact on the Province's interest on debt costs in the future when rates begin to return to historical norms.

About $16.4 billion, or 60 per cent, of borrowing has been completed in the domestic market so far in 2010–11, compared to 49 per cent for the entire 2009–10 fiscal year. Domestic borrowing has been completed through a number of instruments, including:

- ☑ syndicated issues
- ☑ floating rate notes
- ☑ Ontario Savings Bonds.

Borrowing — Domestic Market **Chart 1**

C$16.4 Billion Issued



Source: Ontario Financing Authority.

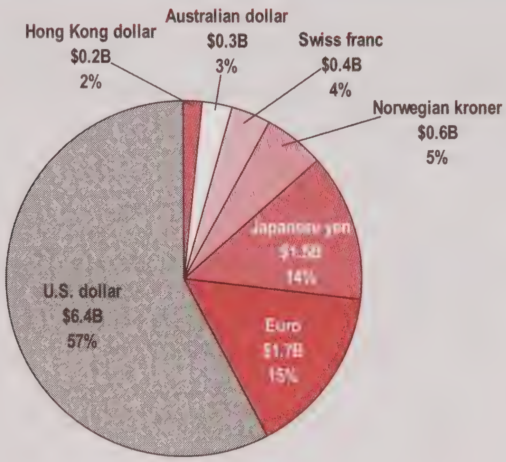
About $11 billion, or 40 per cent, of borrowing has been completed in the international markets so far in 2010–11, compared to 51 per cent for the entire 2009–10 fiscal year. Bonds issued in foreign currencies include:

- ☑ four Global bonds in U.S. dollars
- ☑ Euro Medium-Term Notes (EMTNs) in Euros, Norwegian kroner, Swiss francs, Japanese yen and Hong Kong dollars
- ☑ a Kangaroo bond in Australian dollars.

Borrowing — International Markets

Chart 2

C$11.0 Billion Issued



Numbers may not add due to rounding.
Source: Ontario Financing Authority.

2010–11 Borrowing Program:
Province and Ontario Electricity Financial Corporation (OEFC)
($ Billions) — Table 1

	Budget Plan	Current Outlook	In-Year Change
Deficit	19.7	18.7	(1.0)
Investment in Capital Assets	9.8	9.8	–
Non-Cash Adjustments	(1.7)	(2.7)	(1.0)
Net Loans/Investments	1.9	1.9	–
Debt Maturities	15.6	15.6	–
Debt Redemptions	0.4	0.4	–
Total Funding Requirement	**45.6**	**43.6**	**(2.0)**
Canada Pension Plan Borrowing	(0.8)	(0.8)	–
Decrease/(Increase) in Short-Term Borrowing	(1.6)	(0.6)	1.0
Increase/(Decrease) in Cash and Cash Equivalents	(3.5)	(3.5)	–
Total Long-Term Public Borrowing	**39.7**	**38.7**	**(1.0)**

Note: Numbers may not add due to rounding.

The total funding requirement for 2010–11 has decreased by $2 billion since the *2010 Ontario Budget*, due to the $1 billion decrease in the provincial deficit and the $1 billion payment to the Province from the proposed Teranet agreement.

The Province has chosen to reduce both short-term and long-term borrowing at this point. Depending on market conditions throughout the remainder of the year, the Province has the flexibility to adjust the mix between short-term and long-term borrowing to continue to match investor demand.

Interest on debt (IOD) expense, at $9,715 million, is $246 million less than forecast in the *2010 Budget*. This reduction in IOD primarily reflects the impact of lower interest rates.

Medium-Term Borrowing Outlook: Province and OEFC Table 2
($ Billions)

	2010–11	2011–12	2012–13
Deficit	18.7	17.3	15.9
Investment in Capital Assets	9.8	10.6	10.4
Non-Cash Adjustments	(2.7)	(3.0)	(2.8)
Net Loans/Investments	1.9	1.8	1.0
Debt Maturities	15.6	14.0	17.4
Debt Redemptions	0.4	0.4	0.5
Total Funding Requirement	**43.6**	**41.1**	**42.3**
Canada Pension Plan Borrowing	(0.8)	(1.1)	(0.8)
Decrease/(Increase) in Short-Term Borrowing	(0.6)	(1.2)	(1.2)
Increase/(Decrease) in Cash and Cash Equivalents	(3.5)	–	(0.1)
Total Long-Term Public Borrowing	**38.7**	**38.8**	**40.2**

Note: Numbers may not add due to rounding.

For fiscal years 2010–11 to 2012–13, the Province's total funding requirement has decreased by a cumulative $1.9 billion from the forecast included in the *2010 Budget*.

DEBT

Total debt, which represents all borrowing without offsetting financial assets, is projected to be $236.5 billion as at March 31, 2011, compared to $212.1 billion as at March 31, 2010.

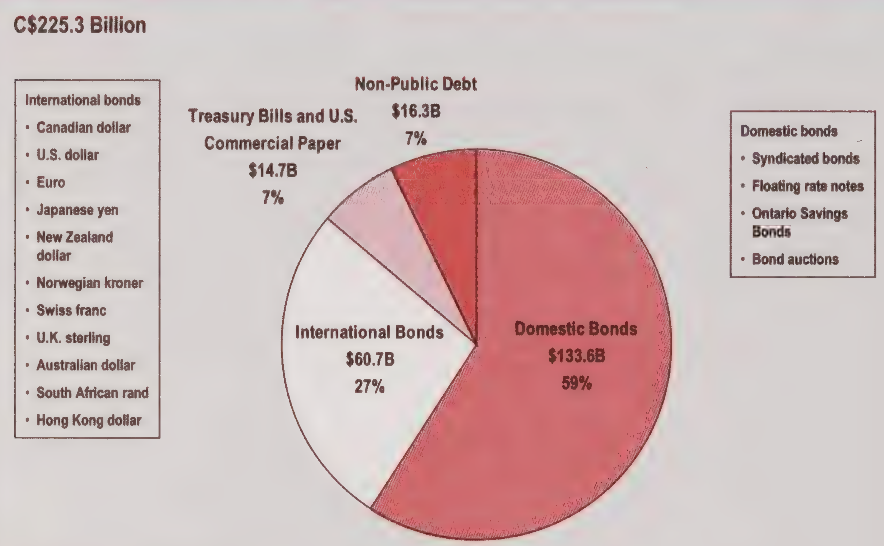
Ontario's net debt is the difference between total liabilities and total financial assets. Ontario's net debt is projected to be $219.5 billion as at March 31, 2011, compared to $193.6 billion as at March 31, 2010.

TOTAL DEBT COMPOSITION

Total debt is composed of bonds issued in both the short- and long-term public capital markets and non-public debt.

Public debt totals $209 billion as at September 30, 2010, primarily consisting of bonds issued in the domestic and international long-term public markets in 11 currencies. Ontario also has $16.3 billion outstanding in non-public debt issued in Canadian dollars. Non-public debt consists of debt instruments issued to public-sector pension funds in Ontario and the Canada Pension Plan Investment Board (CPPIB). This debt is not marketable and cannot be traded.

Total Debt Composition as at September 30, 2010 Chart 3



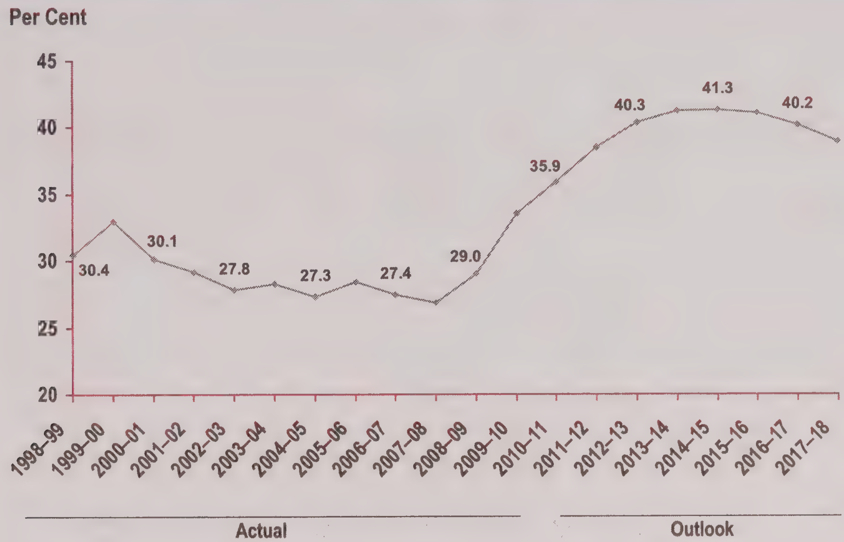
Source: Ontario Financing Authority.

DEBT-TO-GDP RATIOS

The Province's debt-to-GDP ratios are expected to increase due to the projected deficits. The ratios stabilize and begin to decline during the period of the recovery plan as the deficit is eliminated.

Net Debt-to-GDP

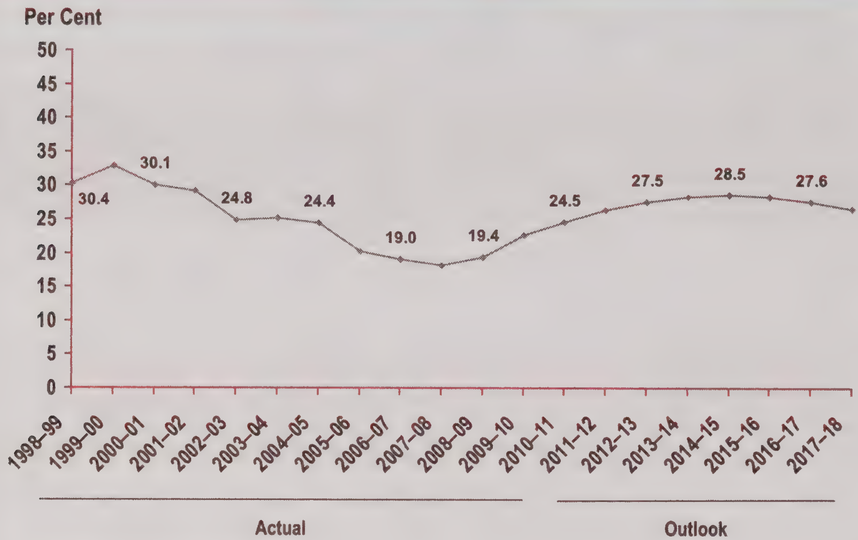
Chart 4



Net Debt has been restated to include Broader Public Sector net debt, starting 2005–06.
Source: Ontario Ministry of Finance.

Accumulated Deficit-to-GDP

Chart 5

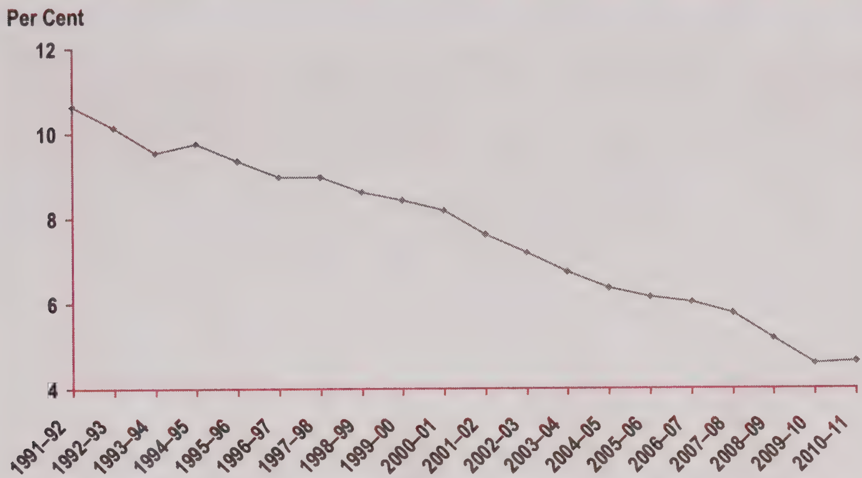


Source: Ontario Ministry of Finance.

COST OF DEBT

The effective interest rate (on a weighted-average basis) on total debt was 4.63 per cent as at September 30, 2010 (March 31, 2010, 4.58 per cent).

Effective Interest Rate (Weighted Average) on Total Debt Chart 6



Sources: Ontario Public Accounts (1991–2010) and Ontario Financing Authority.

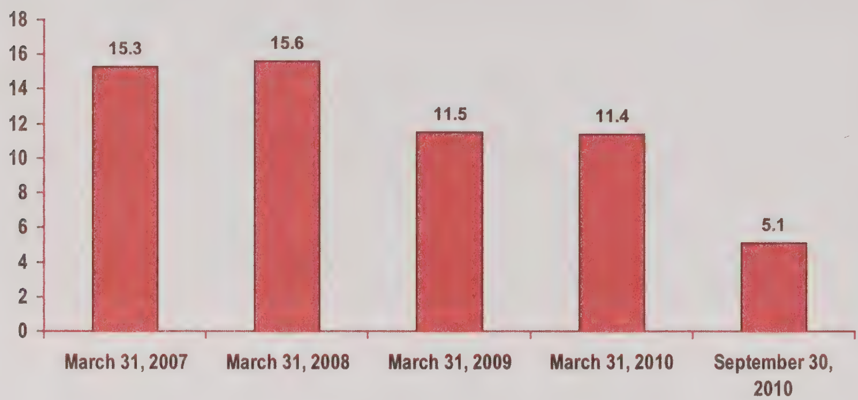
RISK EXPOSURE

The Province limits itself to a maximum net interest rate resetting exposure of 35 per cent of debt issued for Provincial purposes and a maximum foreign exchange exposure of five per cent of debt issued for Provincial purposes. As at September 30, 2010, the net interest rate resetting exposure was 5.1 per cent and foreign exchange exposure was 1.1 per cent.

All exposures have remained well below policy limits in 2010–11.

Net Interest Rate Resetting Exposure Chart 7

As a Percentage of Debt Issued for Provincial Purposes (Interest rate exposure limit set at 35 per cent)

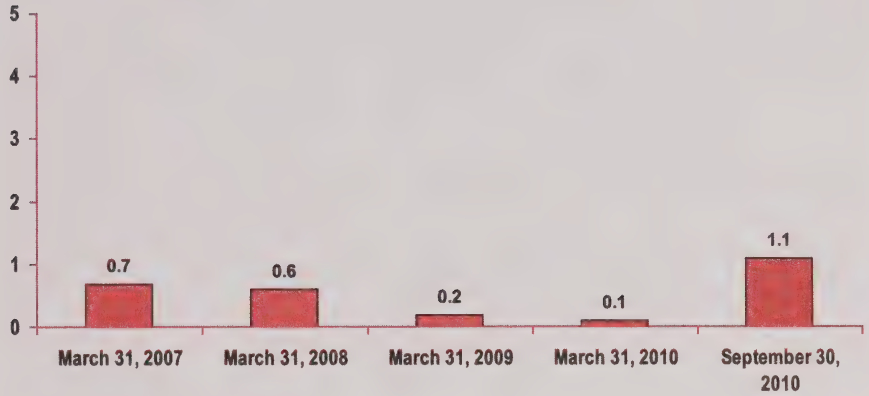


Excludes OEFC debt.
Source: Ontario Financing Authority.

Foreign Exchange Exposure

Chart 8

As a Percentage of Debt Issued for Provincial Purposes
(Foreign exchange exposure limit set at 5 per cent)



Excludes OEFC debt.
Source: Ontario Financing Authority.

CHAPTER 5

TAX AND PENSION MODERNIZATION

HIGHLIGHTS

- ☑ Tax relief of $12 billion for people over three years, including sales tax relief to about 3.1 million individuals and families through the Ontario Sales Tax Credit, which provides up to $260 per person in annual relief.
- ☑ Tax relief of more than $4.8 billion to businesses over three years.
- ☑ Point-of-sale exemptions for the provincial component of the Harmonized Sales Tax (HST) for books, children's clothing and footwear, children's car seats and car booster seats, diapers, feminine hygiene products, print newspapers, qualifying prepared food and beverages sold for a total of $4.00 or less, and eligible purchases by First Nations.

ONTARIO'S TAX PLAN FOR JOBS AND GROWTH

As part of the government's Open Ontario plan, Ontario's Tax Plan for Jobs and Growth, introduced in the *2009 Budget*, positions the province to attract investment and create jobs. This plan is delivering both permanent and temporary tax relief, including tax credits that target those who need help most by putting money back into people's pockets. Over three years, the plan and additional tax measures for people announced since the *2009 Budget* would provide tax relief of $12 billion for people and more than $4.8 billion for businesses.

Ontario's Tax Plan for Jobs and Growth includes the following tax relief for people and businesses:

- ☑ permanent cuts to personal income taxes mean that, for the 2010 tax year, taxes will be reduced by $200, on average, for 93 per cent of Ontario income tax payers;
- ☑ the elimination of Ontario Personal Income Tax for about 90,000 lower-income taxpayers;
- ☑ sales tax relief for about 3.1 million individuals and families through the Ontario Sales Tax Credit. This credit, which began to be paid quarterly in August 2010, provides up to $260 in relief per person per year (up to $1,040 for a family of four);
- ☑ relief for the sales tax on energy and for property taxes of up to $900 annually for non-seniors and $1,025 for seniors, for about 2.8 million low- to middle-income individuals and families through the proposed Ontario Energy and Property Tax Credit. This credit would be provided after a 2010 tax return is filed and, beginning in July 2011, it would be paid in four instalments per year;

- ☑ direct payments totalling up to $1,000 for a family or $300 for a single person to assist in the transition to the HST. People may receive up to three payments, with the first in June 2010 and the second and third payments in December 2010 and June 2011, respectively;
- ☑ payments of $300 to $1,000 per small business to assist in the transition to the HST; and
- ☑ reduced Corporate Income Tax (CIT) rates for large and small businesses and the elimination of the small business deduction surtax.

The government is also providing point-of-sale exemptions for the provincial component of the HST for books, children's clothing and footwear, children's car seats and car booster seats, children's diapers and feminine hygiene products. Additional point-of-sale exemptions have been announced since the *2009 Budget*. See the Additional HST Relief for People section.

A study by tax expert Jack Mintz shows that the HST and Ontario CIT cuts, together with other recent tax changes, will lead to substantial benefits for Ontarians. He estimates that, within 10 years, the lower tax burden on business investment will lead to increased capital investment of $47 billion, almost 600,000 net new jobs and higher annual incomes of up to 8.8 per cent.

To view Professor Mintz's report, visit:
www.rev.gov.on.ca/en/taxchange/pdf/mintz.pdf

Supporting People

Since the *2009 Budget*, the government has announced other tax measures to help people:

- ☑ A new **Northern Ontario Energy Credit** in 2010 will help people in northern Ontario with the higher energy costs they face. This credit provides **up to $130 for a single person and up to $200 for a family** (including single parents). For the first year, this credit is being paid in two instalments, in November 2010 and February 2011. Starting in July 2011, the Northern Ontario Energy Credit and the proposed Ontario Energy and Property Tax Credit would be paid in four instalments per year.
- ☑ A new **Children's Activity Tax Credit** has been proposed to help parents with the cost of enrolling their children in activities that encourage them to be healthy and active. This would be the only tax credit in Canada provided for a comprehensive range of children's activities. Parents would receive **up to $50 per child per year (up to $100 per child with a disability)** towards the cost of these activities. The federal children's fitness tax credit is a non-refundable tax credit — it reduces the amount of income tax a person pays. People who do not earn enough to pay income tax do not benefit from non-refundable tax credits such as the federal children's fitness tax credit. Ontario's proposed credit would be refundable so people would get the credit even if they pay no income tax. This would allow more lower-income families to benefit.

Examples of Proposed Eligible Activities*

Activities Eligible for the Federal Children's Fitness Tax Credit and Ontario's Children's Activity Tax Credit	*Additional Organized or Instructional Activities Eligible for Ontario's Children's Activity Tax Credit*
• Adapted fitness for youth with disabilities • Aerobics • Badminton • Baseball • Basketball • Biking • Curling • Dance • Dodgeball • Figure skating • Floor hockey • Football • Golf • Gymnastics • Hockey • Horseback riding • Ice skating • Karate • Kickboxing • Lacrosse • Running • Skiing • Snowboarding • Soccer • Squash • Swimming • Tennis • Track and field • Volleyball • Water polo	• After-school extracurricular activities • Cadets • Cardiopulmonary resuscitation (CPR) • Chess • Choir • Cooking lessons for kids • Crafts • Drama • Drawing • First aid • Gardening for kids • Girl Guides • Languages • Leadership development • Lifeguard training • Music composition and theory • Music lessons • Non-medical therapeutic activities for children with a disability • Painting • Photography • Pottery • Public speaking • Scouts • Sculpture • Sewing • Tutoring

*Subject to legislative approval. To be eligible, programs would have to meet the same rules regarding duration and the proportion of eligible activities that must be offered as for the federal children's fitness tax credit. These rules can be found at www.cra.gc.ca. The Canada Revenue Agency would make final determinations regarding the eligibility of particular activities, programs and expenses. The list of examples presented above is not exhaustive.

Additional HST Relief for People

With the implementation of the HST, the sales tax status for about 83 per cent of total consumer purchases has not changed. Only an estimated 17 per cent of consumer spending is affected by the HST.

Since the *2009 Budget*, Ontario has announced other measures to provide HST relief for people.

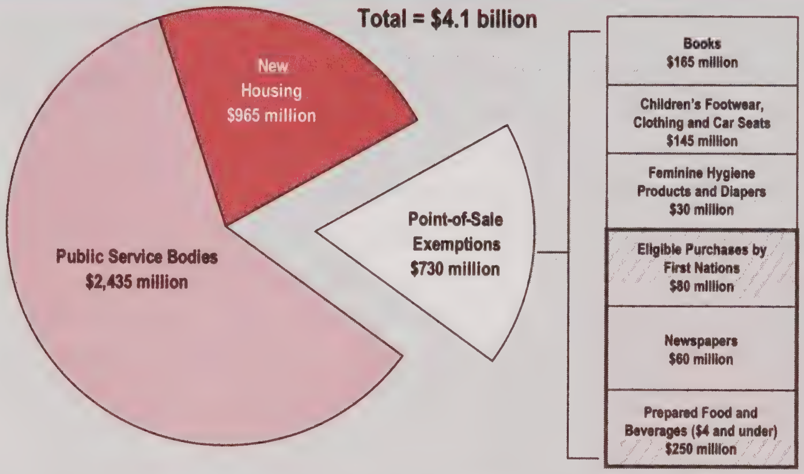
As announced on June 18, 2009, the government enhanced the rebate for new housing under the HST so that new homes purchased as primary residences across all price ranges qualify for a 75 per cent rebate of the provincial portion of the HST, up to a maximum rebate of $24,000. The rebate ensures that, on average, new homes priced up to $400,000 are not subject to additional tax under the HST compared to the Retail Sales Tax (RST) previously embedded in the price of new homes.

Ontario is providing further targeted sales tax relief with point-of-sale exemptions for the provincial component of the HST, which are available for print newspapers and qualifying prepared food and beverages sold for a total of $4.00 or less.

In addition, on June 17, 2010, Ontario announced that, effective September 1, 2010, the exemption under the RST for First Nations will continue for qualifying property and services for the provincial component of the HST. Refunds were also available for eligible purchases made during the interim period from July 1, 2010 to August 31, 2010.

The following chart sets out Ontario HST relief to people and key public service bodies through point-of-sale exemptions and rebates.

HST Rebates, 2011–12 — Chart 1



Notes: Based on administrative and Statistics Canada data. Further details on HST rebate measures can be found at www.ontario.ca/taxchange.

Shading indicates additional point-of-sale exemptions announced since the *2009 Budget*.

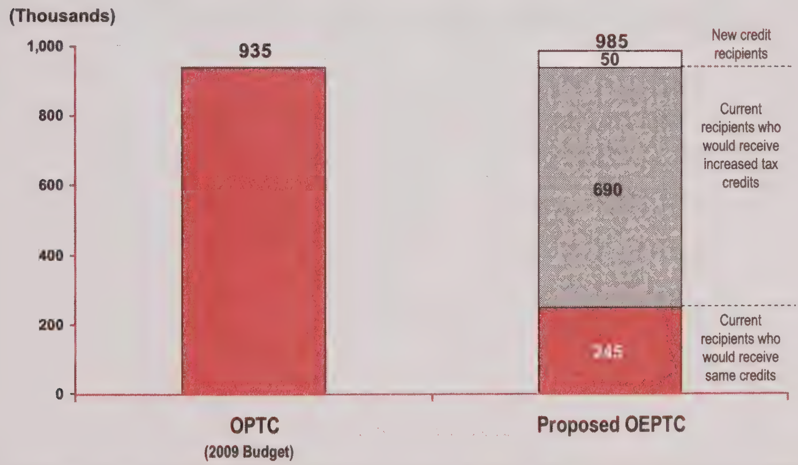
Source: Ontario Ministry of Finance.

The government has also proposed to provide additional relief for the sales tax on energy and for property taxes through the enhanced **Ontario Energy and Property Tax Credit (OEPTC)**. In September, the government introduced legislation that would increase the amount seniors can earn and still be eligible for the OEPTC, making 50,000 more seniors eligible for this credit, and providing increased relief to about 690,000 seniors. The proposed enhanced credit would provide **up to $1,025 for an eligible single senior or senior couple** to help them with the sales tax on energy and with their property tax. The OEPTC would deliver almost $1.3 billion in annual support. This represents an increase of $525 million compared to the property tax credit provided in 2009.

Proposed Energy and Property Tax Credit Enhancement for Seniors

Chart 2

Number of Seniors Claiming the Tax Credit*



*Estimates represent the number of single seniors and senior families, in 2010, who would have received the Ontario Property Tax Credit (OPTC) as announced in the *2009 Budget* compared to the proposed OEPTC.
Source: Ontario Ministry of Finance.

Federal Government Incentives Support Harmonization

The federal government has played a crucial role in supporting Ontario's move to a harmonized sales tax system. To encourage provinces to harmonize with the Goods and Services Tax (GST), the federal government has provided very generous incentives, such as:

- ☑ providing Ontario with $4.3 billion in transitional support;
- ☑ assuming all Canada Revenue Agency information system costs in administering Ontario's portion of the HST;
- ☑ agreeing to administer the HST for no charge; and
- ☑ agreeing to make comparable job offers to all Ontario Public Service employees affected by harmonization, reducing the number of positions by 1,253.

Federal administration of Ontario's HST will save the Province approximately $100 million annually in compensation and overhead by 2014–15.

Federal Support for the HST

"Provincial retail sales taxes (RSTs) are outdated and inefficient. They impose a significant tax burden on new business investment and increase the day-to-day operating costs of Canadian businesses. Unlike the Goods and Services Tax (GST), under which businesses receive a credit for the sales tax they pay on their inputs, these costs are subsequently embedded in the prices consumers pay for goods and services. Ultimately, this makes our businesses less competitive, reduces employment and lowers the standard of living for Canadians. Modernizing these harmful taxes by implementing a value-added tax structure harmonized with the GST is the single most important step that provinces with RSTs could take to stimulate new business investment, create jobs and improve Canada's overall tax competitiveness."

Federal 2009 Budget: Canada's Economic Action Plan, *January 27, 2009, page 262.*

Ontario's Tax Plan for Jobs and Growth

The Tax Plan for Jobs and Growth includes the HST and tax relief for both people and businesses. The impact of the sales tax base conversion on the Province is shown in the first line of the following table. In 2012–13, one percentage point of the HST base is estimated at $2.8 billion (compared to $2.5 billion for one percentage point of the RST base had that tax remained in effect).

Ontario's Tax Plan for Jobs and Growth[1] Table 1
($ Millions)

	2010–11	2011–12	2012–13
Conversion of RST Base to HST Base[2]	**1,580**	**2,270**	**2,345**
2009 Tax Measures for People			
Personal Income Tax Cut	(1,140)	(1,205)	(1,270)
Ontario Sales Tax Credit[3]	(560)	(870)	(925)
Ontario Energy and Property Tax Credit[3]	(440)	(430)	(600)
Ontario Sales Tax Transition Benefit	(2,785)	(1,460)	–
	(4,925)	**(3,965)**	**(2,795)**
Additional Tax Measures for People			
Northern Ontario Energy Credit	(35)	(30)	(45)
Children's Activity Tax Credit	(95)[4]	(75)	(80)
	(130)	**(105)**	**(125)**
Tax Measures for Business			
CIT and Corporate Minimum Tax Cuts	(520)	(1,455)	(1,845)
Small Business CIT Rate Cut	(55)	(180)	(190)
Small Business Surtax Elimination	(20)	(90)	(95)
Small Business Transition Support	(400)	–	–
	(995)	**(1,725)**	**(2,130)**
Temporary Input Tax Credit Restrictions for Business	**690**	**975**	**1,015**
Total Tax Reform and Other Measures	**(3,780)**	**(2,550)**	**(1,690)**

[1] Includes temporary transitional support for people and businesses primarily funded from federal government payments totalling $4.3 billion over two years.
[2] The sales tax base conversion includes point-of-sale exemptions, a rebate for new housing and maintaining sales tax on premiums of certain types of insurance and private transfers of used vehicles.
[3] Represents *2009 Ontario Budget* and subsequent enhancements.
[4] The 2010–11 cost includes $20 million incurred in 2009–10.

Additional information about Ontario's Tax Plan for Jobs and Growth is available at www.ontario.ca/taxchange.

OTHER MEASURES

Amendments Relating to the *Alcohol and Gaming Regulation and Public Protection Act, 1996*

A number of technical amendments will be proposed that would:

- ensure consistency of provisions within the *Alcohol and Gaming Regulation and Public Protection Act*, and consistency with other commodity tax statutes;
- remove obsolete provisions; and
- clarify the future rules regarding product in inventory.

To recognize changes in the operation and structure of charges for beer due to the replacement of fees on manufacturers with taxes, the government will introduce a one-time transition grant for Ontario beer manufacturers.

The government proposes to amend the definition of a microbrewer to clarify that production by a microbrewer for a large brewer does not qualify for a lower rate. This change would ensure that preferential microbrewery rates are targeted to the small businesses they are intended to assist.

Modernizing Corporate Group Taxation

In recent years, Ontario has implemented a number of initiatives to improve and modernize the tax system. Ontario is consistently looking for ways to strengthen the competitiveness of the Ontario economy through improvements to the tax system. Ontario businesses are saving up to $100 million annually in compliance costs from harmonized corporate tax collection.

The 2010 federal budget committed to reviewing the taxation of corporate groups to determine whether a new approach could improve the functioning of the Canadian tax system. Ontario is interested in working collaboratively with the business community, the federal government and the other provinces in developing a more efficient and competitive system of corporate group taxation.

Canada has a system for sharing the Corporate Income Tax base under which each province is entitled to tax the economic activity taking place within its jurisdiction. Any new approach to corporate group taxation must consider the impact on provincial revenues when losses are transferred from one province to offset income from economic activity in another province. The taxation of corporate groups must not distort the principles of interprovincial income allocation and should treat losses in a fair and reasonable manner.

While a new approach is being explored, Ontario calls upon the federal government to strengthen the integrity of the Canadian tax system by immediately taking action to prohibit transactions that result in the transfer of losses within corporate groups and across provincial borders.

Amendments Relating to the Taxation of Benefit Plans

Ontario recognizes the importance of employer-sponsored benefit plans to employees, retirees and their families. Benefit plans that hold sufficient funds to pay benefits over a longer period offer greater security for the recipients. Proposed amendments to the *Retail Sales Tax Act* and the *Corporations Tax Act* would allow planholders that provide significant pre-funding to a qualifying trust to pay tax as benefits are paid, rather than on contributions. A qualifying trust must meet prescribed conditions and have sufficient contributions to provide more than three years of benefits to its members.

MODERNIZING ONTARIO'S PENSION SYSTEM

The government is committed to improving retirement income security and is consulting on different ideas to make it easier and less costly to save for retirement. A discussion paper entitled "Securing Our Retirement Future" was released on October 29, 2010.

The paper described possible changes, which would involve, among other things, innovative types of pension or retirement savings plan arrangements. These changes would require amendments to the federal *Income Tax Act* and pension legislation across Canada.

Currently, pension plans are based on the existence of an employer–employee relationship and require participation by an employer. Allowing financial institutions to administer defined contribution plans with participation from multiple employers and making these plans accessible to the self-employed could extend pension coverage to Canadians who currently lack access to pension plans.

In addition, pooling assets would increase the potential for economies of scale and lower costs to members. There are governance, regulatory and supervisory plan design issues that need to be resolved, in order to protect the interests of plan members.

The government is also considering the establishment of jointly governed, single-employer "target benefit plans" for employees who are represented by unions or "union-like organizations." This initiative, proposed by Harry Arthurs in his report on behalf of the Ontario Expert Commission on Pensions, would help to address the issue of declining single-employer pension plan coverage. As the discussion paper indicates, Ontario has committed to consulting with interested stakeholders, including Finance Canada, on the feasibility, design and implementation of these plans.

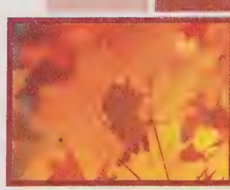
In 2009, the government amended legislation that expanded the mandate of the Ontario Teachers' Pension Plan Board and Ontario Municipal Employees Retirement System (OMERS) Administration Corporation. They were allowed to compete with other financial institutions to provide pension administration and investment services to other pension plans and institutional investors in the public sector on a for-profit basis.

This change permitted large pension plans to offer their services to smaller pension plans to improve investment returns and/or lower the cost of plan administration for Ontario pension plans and others. The amendment was consistent with the recommendations of the Expert Commission on Pensions.

The OMERS Administration Corporation and OMERS Sponsors Corporation have requested an amendment to the *OMERS Act, 2006* that would change the eligibility rules to extend OMERS membership to employees of existing and future OMERS investment entities (e.g., authorized subsidiaries). The government will seek the approval of the legislature to implement this change. Changes to the federal *Income Tax Act* may also be required to fully implement this proposal.

Chapter 6

How to Participate in the 2011 Pre-Budget Consultations



HOW TO PARTICIPATE IN THE 2011 PRE-BUDGET CONSULTATIONS

The Minister of Finance will be hosting pre-budget consultations with individuals, organizations, associations and other stakeholders across the province as part of the McGuinty government's ongoing dialogue with the citizens of Ontario.

In particular, the Minister of Finance is interested in hearing Ontarians' views regarding what more the government can do to create jobs and improve services for people, while eliminating the deficit.

Below is information on how you can share your views and ideas for the upcoming *2011 Ontario Budget*.

Written Submissions

Individuals and organizations can mail, email or fax submissions directly to the Minister of Finance.

Mailing Address

The Honourable Dwight Duncan
Minister of Finance
c/o Budget Secretariat
Frost Building North, 3rd Floor
95 Grosvenor Street
Toronto, ON M7A 1Z1

Email Address

submissions@ontario.ca

Facsimile

416-325-0969

Online Submissions

Individuals can also submit ideas for the *2011 Budget* by completing a form on the Ministry of Finance website at www.fin.gov.on.ca. Click on the "Pre-Budget Consultations" item in the Ontario's Fiscal Cycle menu.

ISSN 1483-5967 (PRINT)
ISSN 1496-2829 (PDF/HTML)

Ontario

2011

ONTARIO ECONOMIC OUTLOOK AND FISCAL REVIEW

The Honourable **DWIGHT DUNCAN**
Minister of Finance

BACKGROUND PAPERS

Ontario

2011

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BACKGROUND PAPERS

For general inquiries regarding the *2011 Ontario Economic Outlook and Fiscal Review, Background Papers,* please call:

Toll-free English & French inquiries: 1-800-337-7222
Teletypewriter (TTY): 1-800-263-7776

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ISSN 1483-5967 (Print)
ISSN 1496-2829 (PDF/HTML)

Ce document est disponible en français sous le titre :
Perspectives économiques et revue financière de l'Ontario de 2011, Documents d'information

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Foreword

Ontarians are witnessing a time of significant global change, upheaval and uncertainty in countries around the world. The extraordinary challenges facing the global economy require extraordinary efforts from everyone both at home and abroad. These are serious times and they call for a serious plan.

Job loss is hard on families. When an economy shrinks, or grows by less than forecast, real people are affected. Some of Ontario's families are going through a hard time in today's economic uncertainty. Building a stronger, more competitive economy is about more than improving forecasts and numbers. It is about helping people get good, high-paying jobs. It is also about building an economy that supports strong schools and hospitals.

Ontario has made tremendous progress over the last eight years in building the world's best-educated workforce. Working together, Ontarians now need to ensure that workers can get the good, high-paying jobs they deserve. This includes youth who are graduating from Ontario's world-class education system. That is why the McGuinty government continues its focus on strengthening Ontario's economy and job creation.

In spite of global economic uncertainty, Ontario has experienced moderate economic growth for most of the last two years. In many ways, Ontario has recovered from the global economic recession, while other places continue to be subjected to much greater volatility. The European economy continues to present new challenges while growth in the United States, Ontario's largest trading partner, remains vulnerable to setbacks.

Around the world, people are worried about jobs and the global economy. Here in Ontario, the impact on families of the continuing global economic uncertainty remains a concern.

Producing Results

In 2003, Ontario was confronted with deteriorating public services. Today, Ontario is recognized around the world for its high-quality schools and it has the shortest wait times in the country for key surgical procedures. Ontarians have rebuilt the province's electricity system and turned it into a clean, reliable source of energy that creates jobs.

In 2008, the global economy fell into one of the deepest recessions in generations. The McGuinty government, like many others, followed the advice of the International Monetary Fund (IMF) and invested heavily in stimulus, lessening the impact of the recession on families by protecting jobs.

Ontarians have adapted to the changes that came with reform to the tax system, including the Harmonized Sales Tax. Taxes on new business investment have been cut almost in half over the last two years, making Ontario one of the most competitive places in North America for new investment. Business investment leads to job creation.

Ontarians have worked together to build a strong, stable economic foundation that has helped the province stand up to the challenges presented by the upheaval that is taking place around the world. In 2008, the McGuinty government took action to support those who needed help the most. In today's economic environment it will continue to make smart investments in encouraging economic growth and job creation.

Jobs and the Economy

Over the last eight months, the global economy has seen a widespread, downward shift in projections for growth. When the *2011 Budget* was published, the average private-sector forecast for Ontario's real GDP growth was 2.6 per cent for the year. More recent projections are forecasting growth of just 2.0 per cent.

As a result of pressures from outside Ontario, the provincial economy continues to face enormous challenges. The era of slower growth in much of the world is expected to continue for an extended period. This means that, for the foreseeable future, modest economic growth will be the new normal here in Ontario, as elsewhere.

Slower Global Economic Growth

The McGuinty government will achieve its goals in the context of the new global economic reality of slower growth. It will strengthen the economy while giving priority to those parts of its plan that best address the immediate needs of Ontario families.

As new challenges present themselves and as the government moves forward to address changing needs and priorities, it is committed to meeting the targets outlined in its balanced budget plan. To ensure those targets are met, any new spending or unforeseen expenditures will come from savings in other areas.

The way governments of all political stripes over the last generation have accumulated debt cannot continue as Ontario faces many years of more modest economic growth.

Lower Rate of Spending Growth

Ontario is confronting the challenge to protect world-class public services and balance the budget in a time of slow economic growth. To meet these goals, the government set a target in the *2011 Budget* of holding growth in overall program spending to 1.4 per cent. Given the current global economic uncertainty, the Commission on the Reform of Ontario's Public Services is expected to recommend that the target for spending growth should be one per cent. The government will consider this and other advice as it prepares the *2012 Budget*.

Ontario has had success in meeting this challenge in the very recent past by lowering growth in program spending from about seven per cent to about four per cent last year. There is more work to be done. The government will receive a report in the next few months from the Commission on the Reform of Ontario's Public Services, chaired by economist Don Drummond, which will make recommendations on ways to transform public services while eliminating the deficit and ensure that Ontario is able to continue supporting strong schools and hospitals.

Strong financial management and a competitive economy are the foundation of quality schools and hospitals, and strong public services contribute to a greater quality of life. Past experience has shown here in Ontario and elsewhere around the world that deep, arbitrary, across-the-board cuts do not work. They do not deliver true fiscal sustainability. They would also unravel the progress Ontarians have made in improving schools and hospitals and preparing Ontario for the economy of tomorrow. It is also perfectly clear that new tax cuts beyond those announced in the Tax Plan for Jobs and Growth are unaffordable, as are demands for large spending increases in today's economic circumstances.

Meeting the Challenge Through Reform

The McGuinty government has an established record of meeting its targets. The *2011 Budget* forecast a deficit of $16.3 billion for 2011–12 and this economic update shows that — at $16.0 billion — the government is projecting it will be slightly ahead of that forecast target, despite the global economic uncertainty and volatility.

Ontario will meet the challenge of lower economic growth through long-term, fundamental reforms to the way government works.
The McGuinty government will build on its track record of reforms to education, health care, taxes and the electricity system. The government will focus more than ever on how to get the best value and the best services for Ontario families.

Healthy Homes Renovation Tax Credit

Meeting the challenge of extended, modest economic growth demands a government that is open to change and innovation — the kind of innovation that Ontarians display time and time again. One example is the proposed Healthy Homes Renovation Tax Credit. This credit would help seniors stay in their homes longer and benefit taxpayers by relieving pressures on long-term care home costs. In addition, the tax credit would support jobs and economic activity. To continue to meet fiscal targets, the cost of this program would be offset by savings in other areas.

Conclusion

Over the last several years, Ontarians have made tremendous accomplishments by working together. The McGuinty government will continue to make smart investments that encourage economic growth. It will balance the budget while encouraging job creation and protecting schools and hospitals.

CHAPTER I

CREATING ONTARIO JOBS IN AN UNCERTAIN GLOBAL ECONOMY

Highlights

Jobs and the Economy

- ☑ A proposed Healthy Homes Renovation Tax Credit that would support $800 million of economic activity and 10,500 jobs.
- ☑ With more than 150 trades and occupations, Ontario supports the largest apprenticeship system in Canada.

Building Ontario's Clean Energy Future

- ☑ The government is promoting job creation across the province through investments in clean and green energy. The *Green Energy and Green Economy Act*, *2009*, has helped create over 20,000 jobs to date and is on track to create 50,000 jobs.

Tax Plan for Jobs and Growth

- ☑ Ontario real machinery and equipment investment spending has risen by over 22 per cent, or $9.0 billion, since July 2010, following the implementation of the Tax Plan for Jobs and Growth. New business investment means new jobs.
- ☑ Since the Harmonized Sales Tax was introduced, Ontario has created 63,100 jobs.

Auto Sector

- ☑ Restructuring of this important sector continues as Ontario strengthens its competitiveness and position as the number one province or state in North America in vehicle assembly.
- ☑ Ontario is investing in hybrid and electric vehicle technology to secure Ontario's position and jobs for the future.

Infrastructure

☑ In June of this year, the government released *Building Together*, the Province's long-term infrastructure plan. Through this plan, the government will continue investing in infrastructure, creating and preserving more than 300,000 jobs over the next three years.

Financial Services

☑ Ontario's sound and competitive financial services sector is supporting economic growth, employing around 360,000 people.

Promoting Mining and Economic Development in Ontario's North

☑ Ontario's Ring of Fire promises to be a major mining and development opportunity. The government is working with Aboriginal communities and stakeholders to help usher in a new era of sustainable economic development and growth in Ontario's north.

☑ Employment in northern Ontario's mining sector increased by over 1,500 jobs between 2010 and 2011.

Preparing Ontarians for Jobs

☑ Full-day kindergarten is helping Ontario's children get the best possible start in their education. At full implementation, in 2014, 247,000 children and their families will benefit from the program.

☑ More students are achieving the provincial standards in provincewide tests — 69 per cent in 2010–11, compared to 54 per cent in 2002–03. Since 2003–04, the high school graduation rate has increased from 68 per cent to 81 per cent.

☑ About 200,000 more students are currently enrolled in postsecondary education or learning a trade than in 2002–03. The government is creating another 60,000 postsecondary spaces over the next five years.

☑ Employment Ontario is serving over one million people a year with career counselling, training and help in looking for a new job. The Second Career program has helped more than 50,000 laid-off workers train for new careers since 2008.

Increasing Access to Care and Preventing Illness

☑ The government has invested $1.5 billion to provide more surgeries, more MRI and CT scans, improve patient flow and publicly track results, and that has improved wait times. Ontario now has the shortest wait times in Canada for key surgical procedures.

☑ There are nearly 2,900 more doctors practising in the province and over 12,000 nursing positions have been created since 2003, which means about 1.3 million more Ontarians now have access to a family doctor.

Overview

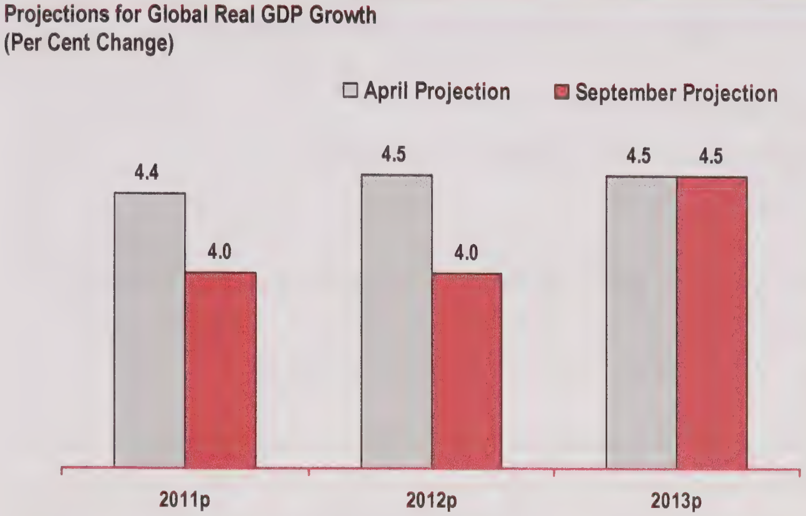
We live in uncertain times. Ontarians are watching the economic crisis unfold around the world. Growth in the global economy is modest. Pressures on the U.S. economy are significant and persistent, including a depressed housing market, stubbornly high unemployment and political paralysis.

This turmoil is taking place against the backdrop of globalization and increasing competition from emerging economies. These trends put pressure on the ability of Ontario's economy to create jobs. They also put pressure on governments to meet fiscal targets while protecting public services such as schools and hospitals.

In spite of global economic uncertainty, Ontario has experienced moderate economic growth for most of the last two years. In many ways, Ontario has recovered from the recent global recession. Since the low point of the recession in May 2009, employment in Ontario has increased by almost 267,000 net new jobs, equal to nearly half of all the new jobs created in Canada. The vast majority of net job gains over the past two years are among employees who receive above-average wages. The Province's unemployment rate has fallen from a peak of 9.4 per cent during the recession to 8.1 per cent recently.

Ontario and Canada have fared better than many other places for a variety of reasons. The financial system is well regulated and supervised. Ontario, the federal government and other provinces had strong fiscal positions when the downturn began. This allowed both levels of governments to lessen the impact of the recession by stimulating economic growth and protecting and creating jobs.

CHART 1. **Global Economic Growth Forecasts Weakening**



p = IMF projection.
Source: International Monetary Fund (April and September 2011).

Ontario's Performance Affected by Global Developments

Around the world, economies are increasingly dependent on each other. Economic performance in Ontario depends on global markets and is vulnerable to uncertainty elsewhere. Ontario's exporters rely on strong U.S. demand. The U.S. economy is experiencing weak growth, which lowers the amount of manufactured goods that Ontario exports. The tragic earthquake and tsunami in Japan in March of this year created economic shocks that caused Ontario's economic output to decline in the second quarter of 2011, in large part because of disruptions to the supply of auto parts. While most signs point to renewed growth in the third quarter, in times like these it is more important than ever to have a serious plan for the future that reflects current economic circumstances.

Changes in the Economy

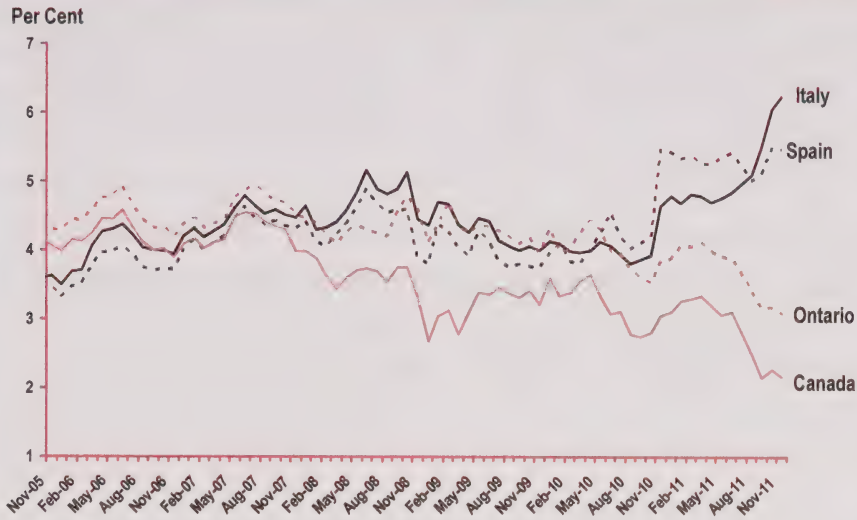
Ontario's economy has enjoyed success for several decades. Economic strength was driven largely by three key factors:

- the strength of the U.S. economy;
- the lower value of the Canadian dollar; and
- cheap oil.

Given changes in the global economy, those factors cannot be relied on anymore. The structure of the global economy — and Ontario's economy — has changed and is continuing to change.

Much of the world is entering an era of more modest economic growth. That means the Province must now focus, more than ever, on managing spending growth. Financial and economic developments in Europe are a stark lesson in the importance of a serious and sustainable fiscal plan. From 2007 through 2009, the interest rates on Spanish and Italian government bonds were similar to those paid by Ontario. By early November of this year, those countries pay from 2.4 to 3.2 percentage points higher on 10-year government bonds. That means more tax dollars are going to service debt instead of protecting schools and hospitals. Disciplined fiscal management will keep this from happening in Ontario.

CHART 2. 10-Year Government Bond Yields



Note: November 2011 data is based on daily average to November 7.
Sources: Bloomberg, PC Bond and Ontario Financing Authority.

Ontario's finances must be put on a long-term, sustainable path. The government remains committed to achieving the targets outlined in its balanced budget plan while protecting health care and education. Past experience has shown that deep, arbitrary, across-the-board cuts do not work. They do not deliver true fiscal sustainability and they would unravel the progress Ontarians have made in improving schools and hospitals and preparing Ontario for the economy of tomorrow.

The *2011 Budget* outlined a plan to hold average annual growth in program expense to 1.4 per cent until the budget is balanced in 2017–18. Given the continuing slow rate of growth expected in both the global and Ontario economies, the Commission on the Reform of Ontario's Public Services is expected to recommend that the target for spending growth should be one per cent. The government will consider this and other advice as it prepares for the *2012 Budget*.

The McGuinty government will build on its track record of innovative reforms to education, health care, taxes and the electricity system. The government will focus more than ever on getting the best value and the best outcomes in everything the Ontario public sector does. Building on reforms already introduced, including in health care and in the *2011 Budget*, overlap and duplication will be eliminated, new forms of service delivery will be introduced and the government will ensure the value of public assets is maximized.

Meeting the challenge requires a government that is innovative and open to change. Just because a particular department is delivering a program today does not mean it should deliver that program tomorrow. Government must pursue innovation, open up the provision of government services to new forms of competition and pursue new partnerships within the public, private and voluntary sectors.

As part of meeting the needs of Ontarians in innovative ways, the government is proposing a new Healthy Homes Renovation Tax Credit, effective October 1, 2011. This tax credit would make it easier and safer for seniors to stay in their own or their families' homes by helping with the costs of renovations such as walk-in bathtubs or wheelchair ramps. The tax credit, worth up to $1,500 per year, would support about $800 million in home renovation activity and around 10,500 jobs throughout the Ontario economy annually.

The Healthy Homes Renovation Tax Credit would help seniors stay healthy and live with dignity and independence in the comfort of their own homes. It costs taxpayers more to provide care in a long-term care home than to a senior who lives in their own home or that of a family member. In addition, supporting seniors living at home frees up health resources for those patients occupying costly beds in hospitals but who would be best cared for in a long-term care home.

Building Ontario's Clean Energy Future

When this government took office in 2003, it inherited an electricity system with no long-term plan. There was not enough generation to meet demand reliably. Transmission lines were aging and some assets were in poor condition. Ontario relied heavily on coal, which causes pollution. For years, health experts have been urging governments to shut down coal plants because doing so would drastically improve air quality and public health — and save money on hospital visits.

Ontario is on track to phase out coal-fired electricity by 2014. The government has already shut down eight coal-fired units and is fast-tracking the closure of two more units by the end of 2011. It is also exploring accelerating the closure of the remaining six units at Lambton and Nanticoke.

Through the *Green Energy and Green Economy Act, 2009* (GEA), Ontario is promoting private-sector investments to create a new generation of clean energy jobs, while protecting the environment. The GEA has helped create over 20,000 jobs to date and is on track to create 50,000 jobs.

Since 2009, more than 30 businesses have announced they are setting up or expanding plants in Ontario to manufacture parts for the solar and wind industries. More than 2,000 mid-size and large-scale renewable energy projects have been announced under the Feed-in Tariff program, representing more than $16 billion in private-sector investment.

With the changes Ontarians have made together, Ontario now has a cleaner and reliable electricity system that is creating jobs and making Ontario a world leader in clean energy. These investments have been absolutely necessary — and they are increasing costs.

To help with this transition to a clean, reliable system, the McGuinty government introduced the Ontario Clean Energy Benefit, which reduces monthly electricity bills for most residential and small business consumers by 10 per cent.

The Tax Plan for Jobs and Growth

In 2009, the government announced the Tax Plan for Jobs and Growth, which is transforming the Province's tax system to make Ontario's economy more competitive. This plan has cut income taxes for people and has cut the marginal effective tax rate on new business investment almost in half.

Forbes Takes Note of Ontario's Tax Changes

"Canada ranks No. 1 in our annual look at the Best Countries for Business... Canada moves up from No. 4 in last year's ranking thanks to its improved tax standing. It ranks ninth overall for tax burden compared to No. 23 in 2010. Credit a reformed tax structure with a Harmonized Sales Tax introduced in Ontario and British Columbia in 2010. The goal is to make Canadian businesses more competitive. Canada's tax status also improved thanks to reduced corporate and employee tax rates."

Kurt Badenhausen, "The Best Countries for Business," Forbes.com, October 3, 2011.

Despite the ongoing global economic uncertainty, businesses continue to increase investments in the province — and that means job creation.

Ontario real machinery and equipment (M&E) investment spending has risen by over 22 per cent, or $9.0 billion, since July 2010, following the implementation of the Tax Plan for Jobs and Growth. The forecast is for strong, continued growth in M&E investment spending, rising 63 per cent from $37 billion in 2009 to over $60 billion by 2014.

These healthy investments in new machinery and equipment will support stronger growth in productivity over the next several years, lead to job creation and promote a more competitive and prosperous Ontario economy.

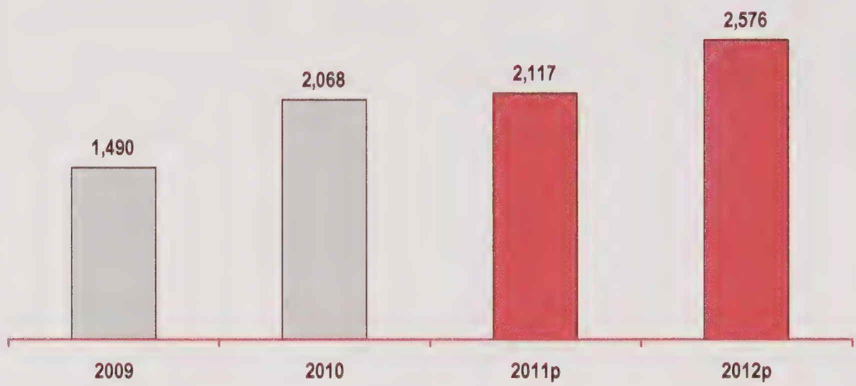
CHART 3. Sustained Gains in Business Machinery and Equipment Spending

p = Ontario Ministry of Finance planning projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

Auto Sector

The auto industry continues to be a key sector of Ontario's economy, with five major vehicle assemblers and more than 400 parts manufacturing plants in communities across the province. Restructuring of this important sector continues as Ontario strengthens its competitiveness and its position as the number one auto assembler and a major parts producer in North America.

CHART 4. Ontario Vehicle Production (000s)



p = Ward's projection.
Source: Ward's Automotive Reports.

In 2009, Ontario made about $4.8 billion in total support available to General Motors (GM) and Chrysler Canada Inc. to help maintain Ontario's share of North American vehicle production in the province and to protect the hundreds of thousands of jobs supported by the automotive sector. Both GM and Chrysler have now repaid the loan portion of Ontario's investment. Ontario no longer holds any investment in Chrysler and will sell its remaining interest in GM at an appropriate time in the future.

Infrastructure

Modern and efficient public infrastructure is essential to both Ontario's economic growth and competitiveness, and to Ontarians' quality of life. Infrastructure investments in Ontario also help support business-sector productivity growth by reducing business costs and travel times while improving public services. In this time of economic uncertainty, investments in infrastructure become even more important. On average, the Province's infrastructure investments have created or preserved close to 100,000 jobs in each of the past six years.

Financial Services

Ontario's financial services sector continues to support job creation and a diverse economy. Employment in the sector grew in 2009 despite the global recession, and, while it dipped slightly in 2010, employment growth resumed in 2011, helping to support growth in the rest of the economy.

Toronto is home to the nation's banks — ranked the soundest in the world over the last four years — and globally successful insurers, investment firms and pension funds. Toronto has now risen to number 10 on the Global Financial Centres Index.

The government is working with the financial services sector to stimulate future growth, while modernizing financial regulation to support globally competitive markets and investor protection. The Province has partnered with the Financial Services Leadership Council and the Toronto Financial Services Alliance to advance the financial services strategy to improve the sector's competitiveness, create thousands of high-paying jobs and establish the Global Risk Institute in Financial Services.

TABLE 1. Global Financial Centres Index Ranking: Toronto Enters the Top 10

Year	Toronto's Rank
2011	10
2010	12
2009	13

Source: Z/Yen Group Ltd. Annual figures as of September 2011.

Mining and Opportunities in Ontario's Ring of Fire

The mining sector is a major employer in many areas of northern Ontario as well as Ontario's second-largest source of merchandise exports, after autos. Employment in northern Ontario's mining sector (excluding oil and gas) increased by over 1,500 jobs between 2010 and 2011 (year to date).

Ontario's Ring of Fire, an area of the Far North with potentially large deposits of important minerals such as chromite, nickel, copper and platinum, presents a unique mining and economic development opportunity. The Ring of Fire Coordinator is actively working with industry and residents of northern Ontario to facilitate sustainable development of this resource. A number of companies continue to move forward with advanced planning for mines and infrastructure. At the same time, the government is working directly with First Nations communities to improve community relationships and engage in capacity building.

Producing Results

The McGuinty government was elected in 2003 with a mandate to rebuild schools and hospitals after the previous government had made deep, across-the-board cuts. This government hired nurses and teachers, and invested in infrastructure and public services.

The Province is building the most educated workforce in the world. Ontario's schools are world leaders at preparing students for their entry into the competitive job market. The government must now focus more than ever on making sure they get the jobs they are prepared for.

At 16.5 per cent, youth unemployment in Ontario is stubbornly high. While other parts of the world have reached much higher levels, the province's youth are worried about being left behind. Lack of employment opportunities affects their pocketbooks. In turn, this affects families when unemployed young Ontarians may be less willing or able to leave home. This is just one of the reasons why the McGuinty government is focused on jobs and the economy.

Preparing Ontarians for Jobs

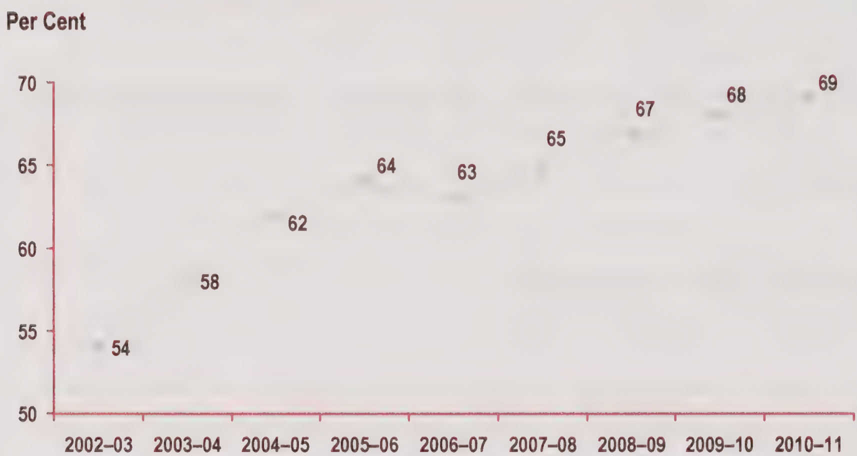
Building the best-educated workforce in the world is the most important thing Ontarians can do to generate jobs and prosperity. A well-educated workforce attracts business investment and creates the opportunity for Ontario businesses to find the skilled, knowledgeable people they need to grow.

Implemented in 2010, full-day kindergarten is helping Ontario's children get the best possible start to their education. Students who achieve early success are more likely to perform well in school and go on to postsecondary education. As of September 2011, nearly 800 Ontario schools are offering the program, benefiting about 50,000 children. The program will be fully implemented in September 2014, benefiting 247,000 children and their families.

The government reduced primary class sizes and, by 2008–09, all primary classes had 23 or fewer students. In 2003–04, only 64 per cent of primary classes had 23 or fewer students.

The government is also investing in programs to help students improve their reading, writing and math skills. Education Quality and Accountability Office (EQAO) provincial test scores from the 2010–11 school year show that 69 per cent of Ontario Grade 3 and 6 students are meeting or exceeding the provincial standard in reading, writing and math. This is a 15 percentage point increase from 54 per cent in 2002–03.

CHART 5. Percentage of Grade 3 and 6 Students Achieving Provincial Standard in Reading, Writing and Math



Source: Ontario Ministry of Education.

The Economist and McKinsey & Company Cite Ontario's Education System as One of the Best in the World

"The Canadian province has a high proportion of immigrants, many without English as a first language, yet it now has one of the world's best-performing schools systems, after bringing in what one of its architects calls 'reform without rancour.'"

"Reforming Education: The Great Schools Revolution," The Economist, *September 17, 2011.*

"Ontario ... is among the world's highest-performing school systems. It consistently achieves top-quartile mathematics scores and top-decile reading scores in PISA*."

"How the World's Most Improved School Systems Keep Getting Better," McKinsey & Company, November 2010.

*Programme for International Student Assessment (PISA).

In today's competitive global economy, a postsecondary education is more critical than ever. That is why the McGuinty government created 200,000 more postsecondary and apprenticeship spaces. The latest international comparable data (2009) showed 63 per cent of adults aged 25 to 64 in Ontario completed postsecondary education, higher than all Organisation for Economic Co-operation and Development (OECD) countries. University and college enrolment in Ontario has grown by 36 per cent since 2002–03. This year, Ontario had the most first-year undergraduate students confirm entry to university ever. The government is creating another 60,000 postsecondary spaces over the next five years.

CHART 6. **More Adults Have Postsecondary Credentials**

Total postsecondary education is defined as completed university or college education, including college-based apprenticeship and short training programs.
Source: Statistics Canada, Labour Force Survey (special tabulation for Ontario).

Through Employment Ontario, the Province supports a variety of employment and training services to help Ontarians find and keep their jobs. Additional investments were made to help workers and communities affected by the recent global recession. One example is the Second Career program that has helped more than 50,000 laid-off workers train for new careers in occupations with demonstrated labour-market prospects.

Ontario has also taken steps to expand and modernize its apprenticeship programs. With more than 150 trades and occupations, Ontario has the largest apprenticeship system in Canada. The establishment of the Ontario College of Trades, an industry-driven governing body, is expected to further modernize the province's apprenticeship and skilled trades system.

Those with high skills will be needed as the new clean energy sector creates 50,000 jobs, and as the Province's tax reforms help create almost 600,000 net new jobs by 2020.[1]

Health Care

The government has built a health care system that provides Ontarians with better access to a family doctor and shorter wait times, while promoting health and preventing illness.

The government focused on reducing wait times, where previously this measurement had never been taken. The 2011 report card by the Wait Time Alliance gave Ontario straight As for the third consecutive year for reducing wait times for hip, knee, cancer, cataract and cardiac surgeries, making it the highest-performing province.

Since 2003, about 1.3 million more Ontarians have access to a family doctor, with nearly 2,900 more doctors practising in the province.

The government has supported the creation of more than 12,000 nursing positions since 2003, and has more than doubled the number of primary health care nurse practitioner education spaces from 75 to 176.
The Province also guarantees a full-time job opportunity for every new nursing graduate.

Ontario was the first province to introduce nurse practitioner-led clinics and, by 2011–12, 25 clinics will be operational and helping to improve access to care for more than 40,000 Ontarians.

Since 2005, the government has increased access to doctors and nurses by creating 200 Family Health Teams, including 42 Teams in northern Ontario. Teams are made up of a range of health care professionals who work collaboratively to provide comprehensive primary care to almost three million Ontarians.

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[1] Jack M. Mintz, "Ontario's Bold Move to Create Jobs and Growth," School of Public Policy, University of Calgary, November 2009.

Through the Ontario Diabetes Strategy, the Province has expanded diabetes programs and services to improve health care and health outcomes for Ontarians living with the disease or at risk of developing it. Since June 2010, all Ontarians with diabetes who wished to have a primary care provider now have one. Ontario was also the first province to fully fund insulin pumps for children and youth with type 1 diabetes, saving families up to $18,300 per child in the first five years.

Since 2003, Ontario has added five vaccines to its publicly funded vaccine program, saving families about $1,400 per child.

CHAPTER II

ONTARIO'S ECONOMIC OUTLOOK

Highlights

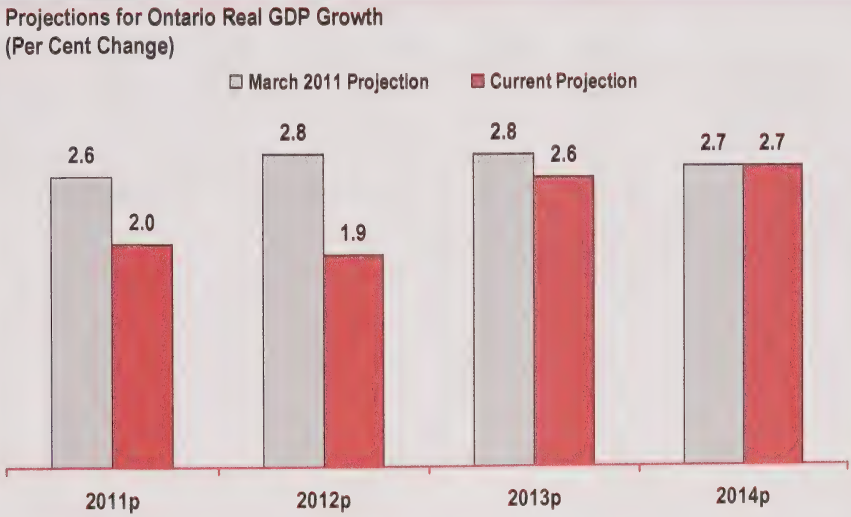
- ☑ Private-sector average projected 2011 real GDP growth:
  - *2011 Budget* — 2.6 per cent.
  - Current — 2.0 per cent.
- ☑ Private-sector average projected 2012 real GDP growth — 1.9 per cent.
- ☑ Private-sector average projected 2013 real GDP growth — 2.6 per cent.
- ☑ Net new jobs created since recessionary low in May 2009 — 266,800.
  - The majority of these net new jobs are full-time, paying above-average wages.

Overview

Because of strong leadership, the Ontario economy weathered the global recession of 2008–09. A weak U.S. economy, European sovereign debt concerns, higher oil prices and disruptions from the Japanese tsunami crisis have all combined to slow Ontario's economic growth during 2011. As a result of these global economic challenges, the Ontario economy is expected to grow at a more modest pace than previously forecast.

Over the last eight months, the global economy has seen a widespread, downward shift in projections for economic growth. In March, when the government published the *2011 Budget*, the average private-sector forecast for Ontario's economy was real gross domestic product (GDP) growth of 2.6 per cent for 2011. This has declined to 2.0 per cent.

CHART 1. **Private-Sector Economic Forecasts for Ontario Softening**



p = private-sector survey average.
Source: Ontario Ministry of Finance Survey of Forecasts.

This drop in the rate of growth has an impact on Ontarians, creating uncertainty. It also has a direct impact on government revenues and how the government manages its planning, particularly when it comes to balancing the implementation of new programs and protecting public services with meeting its targets for eliminating the deficit.

The degree of change is even greater for 2012. In March 2011, the average private-sector forecast placed GDP growth at 2.8 per cent, but by November, those forecasts had fallen to 1.9 per cent. In the face of such volatility, the government must plan and react accordingly.

The Ministry of Finance is projecting real GDP growth of 1.8 per cent in 2011, 1.8 per cent in 2012, 2.5 per cent in 2013 and 2.6 per cent in 2014.[1] Solid household spending and robust business capital investment will contribute to growth.

TABLE 1. Ontario Economic Outlook

(Per Cent)

	2008	2009	2010	2011p	2012p	2013p	2014p
Real GDP Growth	(0.6)	(3.2)	3.0	1.8	1.8	2.5	2.6
Nominal GDP Growth	0.5	(0.9)	5.3	4.0	3.7	4.4	4.5
Employment Growth	1.6	(2.5)	1.7	1.8	1.1	1.4	1.5
CPI Inflation	2.3	0.4	2.5	3.2	2.0	2.0	2.0

p = Ontario Ministry of Finance planning projection.

Sources: Statistics Canada and Ontario Ministry of Finance.

[1] Based on information available up to November 8, 2011.

Recent Economic Developments

Following seven consecutive quarters of growth over which GDP advanced 5.6 per cent, Ontario real GDP edged down 0.3 per cent in the second quarter of 2011. Real GDP also edged down for Canada as a whole (–0.1 per cent) and Quebec (–0.2 per cent) in the quarter. A number of temporary factors slowed the economy in the quarter, including the disruption of global supply chains triggered by the devastating earthquake and tsunami in Japan as well as the spike in oil prices precipitated by political unrest in the Middle East and North Africa.

Recent economic data indicate that economic growth resumed in the third quarter of 2011. International merchandise exports increased 3.8 per cent in the third quarter, reflecting gains in machinery and equipment and industrial goods and materials. As well, manufacturing sales have increased 5.5 per cent from a low in June. Quarterly forecasts by private-sector economists are all projecting steady but modest economic growth over the final two quarters of this year.

Despite the recent easing in the pace of growth, the Ontario economy has largely recovered from the global recession of 2008–09. As of the second quarter of 2011, Ontario real GDP was just 0.1 per cent below the pre-recession level. Solid growth in consumer spending, a strong rebound in business investment and government actions all supported Ontario's recovery from the global recession. However, external trade has lagged domestic demand. Merchandise exports have risen 39.5 per cent from a recessionary low, but remain 8.2 per cent below their pre-recession level.

TABLE 2. Tracking Ontario's Economic Recovery

(Key Economic Indicators for Ontario)

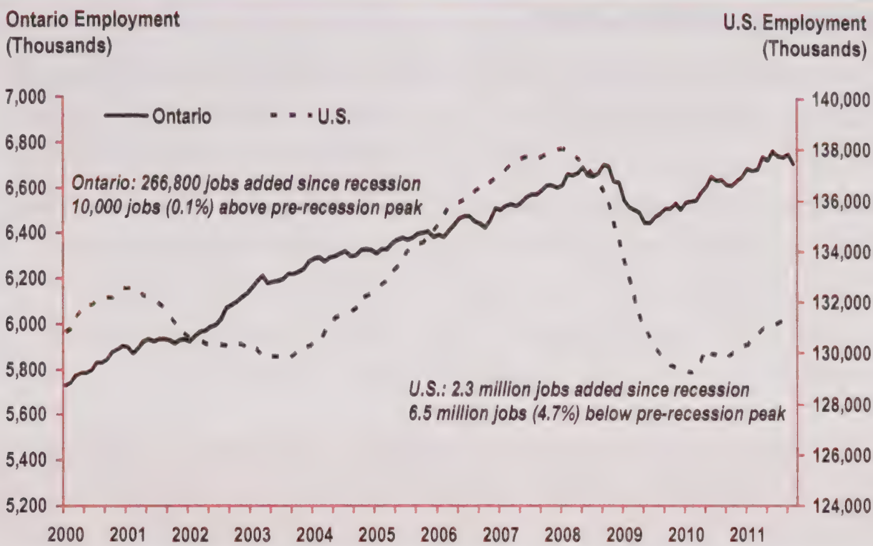
	Pre-Recession Level	Change During Recession	Recovery to Date	Comparison to Pre-Recession Level
Jobs (000s)	6,709	(257)	267	10 *+0.1%*
Real GDP[1] ($ Billions, 2002)	532.4	(26.7)	26.3	(0.4) *(0.1%)*
Merchandise Exports ($ Billions)	14.3	(4.9)	3.7	(1.2) *(8.2%)*
Manufacturing Sales ($ Billions)	24.0	(7.1)	4.6	(2.5) *(10.3%)*
Retail Sales ($ Billions)	12.9	(1.2)	1.7	0.5 *+4.0%*
Unemployment Rate (Level)	6.4	Up 3.0 to 9.4	Down 1.3 to 8.1	Up 1.7

[1] Based on *Ontario Economic Accounts*, October 2011.

Sources: Statistics Canada and Ontario Ministry of Finance.

Over the past two years, 266,800 net jobs have been created from the recessionary low in May 2009. Full-time employment rose 237,900 over this period while part-time employment increased 28,900. The vast majority of net new job gains over the past two years are among employees who receive above-average wages. As of October 2011, employment was 10,000 jobs above the pre-recession peak in September 2008. Ontario's unemployment rate has also moved lower, falling from a recessionary high of 9.4 per cent in May 2009 to 8.1 per cent in October 2011.

CHART 2. **Job Recovery in Ontario**



Sources: Statistics Canada and U.S. Bureau of Labor Statistics.

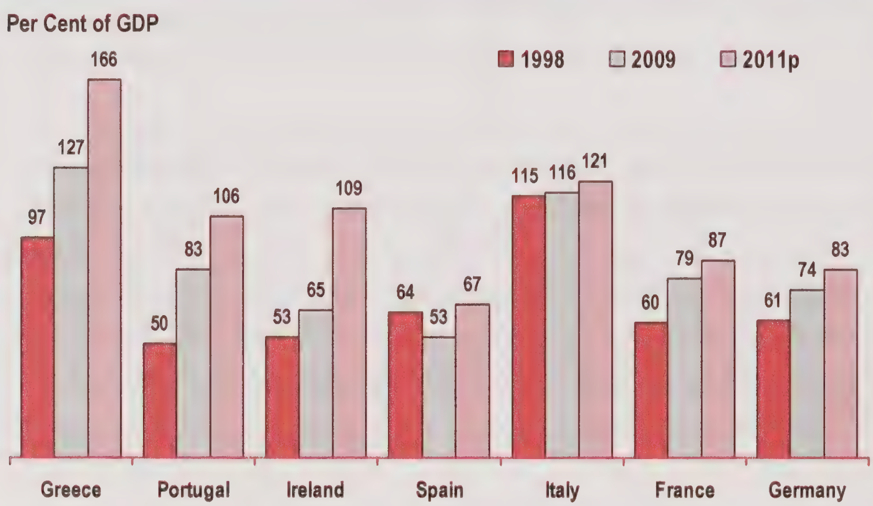
Statistics Canada reports that Ontario employment has fallen in three of the last four months. Despite this, Ontario has created 128,400 net new jobs so far this year, accounting for over 45 per cent of all the jobs created across Canada. Full-time employment has increased by 133,100 jobs this year while part-time employment has edged down by 4,700. The pace of job creation in Ontario is ahead of that of the United States and most of the G7 nations.

The Challenging Global Economic Environment

European Sovereign Debt

Concern over the sovereign debt of several euro zone countries has been among the most prominent global economic issues of the past two years. While the risks associated with Greece's public debt are the most acute, there are also challenges related to the debt financing of other European Union (EU) member states. The EU and International Monetary Fund (IMF) rescue plans for Greece, Ireland and Portugal, and a recently strengthened European Financial Stability Facility, may help to contain the problem. However, the outcome is highly uncertain.

CHART 3. **European Debt**



p = IMF projection.
Source: International Monetary Fund (September 2011).

The direct impact of the euro zone debt crisis on Ontario is unclear. Ontario's exports to Europe, although growing in recent years, account for just over 10 per cent of total international merchandise exports. Canadian banks have little direct exposure to the troubled euro zone economies. However, Europe's debt challenges could hurt Ontario indirectly through increased volatility in financial markets and by weakening business and consumer confidence.

Global Economic Outlook Weakening

The pace of economic recovery in North America, Europe and Japan has slowed significantly from last year. This is largely due to the sharp slowdown in U.S. growth over the first half of 2011 as well as the impact of the tsunami disaster in Japan. Weakness in European economies as a result of the sovereign debt crisis has also contributed to the general slowdown. The outlook for emerging economies continues to be more positive, although weaker export demand, volatile commodity prices and geopolitical tensions remain key risks.

CHART 4. **Weakening Global Economic Growth Forecasts**

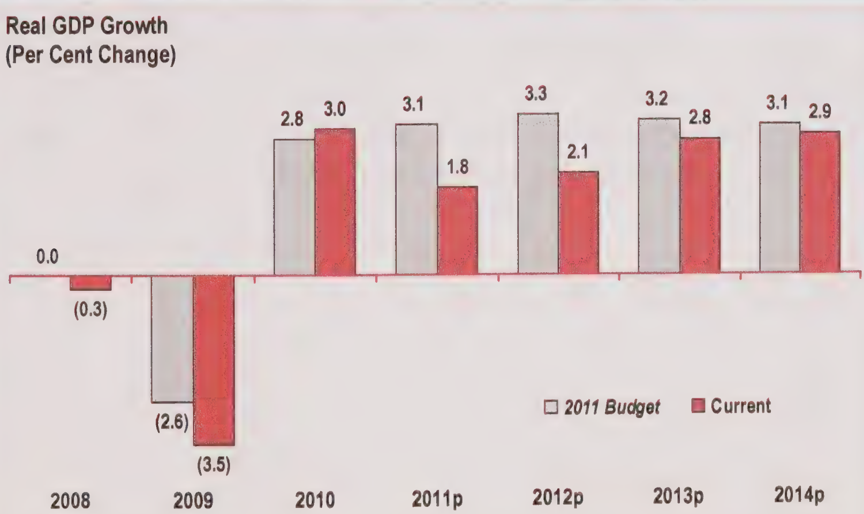
p = IMF projection.
Source: International Monetary Fund (April and September 2011).

U.S. Economy

The United States faces a number of significant challenges to its economic outlook. In particular, job creation has been very weak, with only 26 per cent of the jobs lost in the global recession recovered to date. As well, the U.S. unemployment rate remains at 9.0 per cent compared to a pre-recession level of 4.7 per cent. Housing activity also remains severely depressed.

Based on revised estimates from the U.S. Bureau of Economic Analysis, the U.S. economy suffered a deeper recession and slower recovery than previously reported. At the same time, private-sector forecasts for U.S. economic growth have been revised downward over the past several months. As a result, the U.S. economic recovery is significantly less robust than was anticipated a few months ago. After expanding 3.0 per cent in 2010, private-sector forecasters are projecting modest real GDP growth of 1.8 per cent in 2011 and 2.1 per cent in 2012.

CHART 5. U.S. Recession Deeper and Recovery Slower



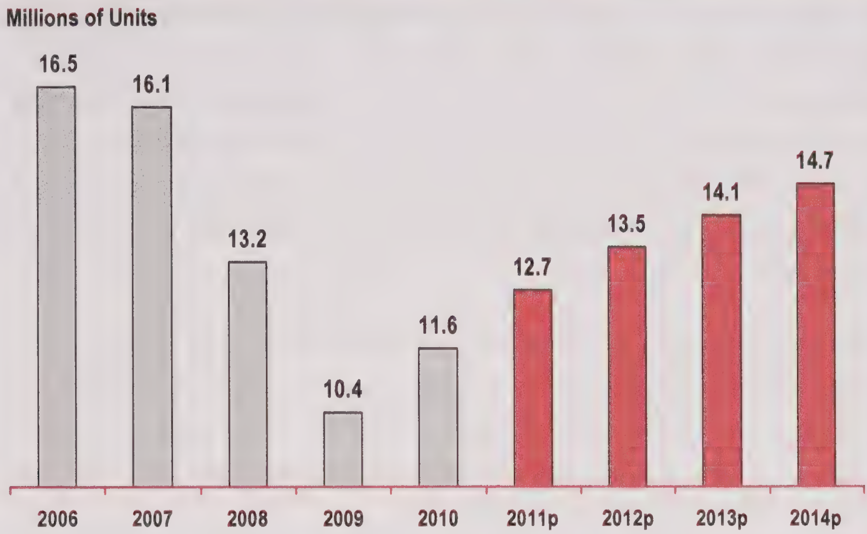
p = private-sector survey average.
Sources: U.S. Bureau of Economic Analysis and *Blue Chip Economic Indicators* (March, October and November 2011).

The outlook for both U.S. motor vehicle sales and housing starts remains relatively positive, with renewed growth from current low levels. Growth in these markets should help support a broader, sustained economic expansion. Solid growth in retail sales and industrial production so far this year also provides evidence of slowly improving economic conditions in the United States.

Although the share of Ontario exports to the United States has trended lower in recent years, the United States remains Ontario's largest trading partner by far. It is the destination for nearly 80 per cent of Ontario's international merchandise exports. Ontario exports of motor vehicles and parts to the United States totalled $45.4 billion in 2010 and accounted for nearly 40 per cent of the province's U.S.-bound exports.

In the United States, sales of light motor vehicles are projected to increase from 10.4 million units in 2009 and 11.6 million units in 2010 to 12.7 million units in 2011, and to grow steadily to 14.7 million by 2014. Ontario's auto exports will continue to strengthen over the next several years. However, despite the solid recovery, U.S. motor vehicle sales are expected to remain below pre-recession levels, which exceeded 16 million units.

CHART 6. U.S. Light Motor Vehicle Sales Continue to Grow



p = private-sector survey average.
Sources: U.S. Bureau of Economic Analysis and *Blue Chip Economic Indicators* (October and November 2011).

The risks for the U.S. economy remain high. Over the next year, U.S. fiscal policy measures are likely to have a significant influence on growth. Additional political uncertainty, similar to the summer debate on the U.S. debt ceiling, could further undermine consumer and business confidence. The U.S. economy is also vulnerable to further external shocks, such as any financial turbulence arising from developments in Europe.

Oil Prices

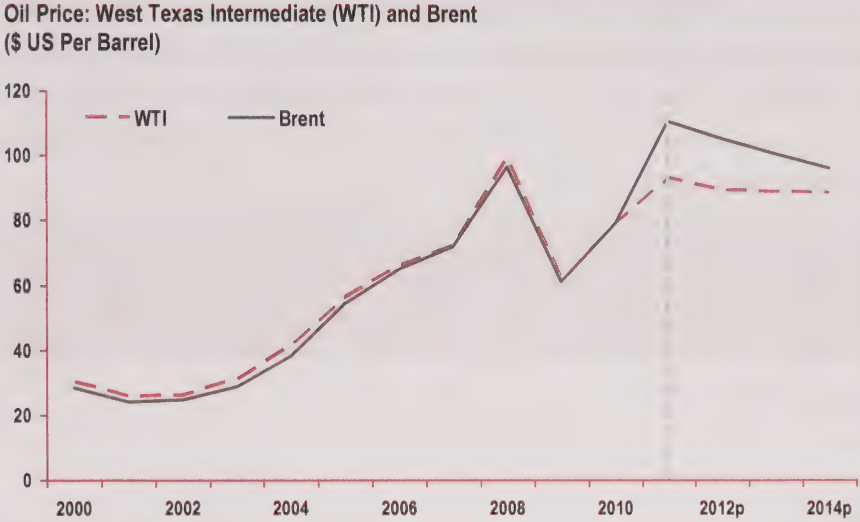
Oil prices have been very volatile over the past year, reflecting geopolitical uncertainty in many oil-producing states, supply constraints and shifting economic conditions. West Texas Intermediate (WTI) crude oil traded close to $114 US per barrel at the end of April, reflecting tight supply conditions due to political instability in the Middle East and North Africa. Oil prices trended lower through the summer, then averaged $86 US per barrel in October. Based on futures market contracts, traders expect the price for WTI oil to average approximately $90 US per barrel in December.

Softer demand is expected to restrain oil prices in the short term, although upward pressure remains due to supply uncertainty and reduced inventories in some parts of the world. There is a wide range of views on the path of oil prices, with most forecasts for WTI falling within the range of $84 US to $99 US per barrel in 2012.

Based on recent average prices for crude oil futures contracts, the price for WTI oil is expected to average $90 US per barrel in 2012, down from $94 US per barrel in 2011. Brent crude oil, an alternative benchmark, is expected to average $111 US per barrel in 2011 and decline to $106 US per barrel in 2012.

Oil prices are expected to trend lower from their 2011 highs. However, strong growth in oil demand from emerging economies combined with more moderate supply growth will keep oil prices at relatively high levels. By 2014, the price for WTI oil is forecast to average $89 US per barrel while the Brent standard is projected to average $97 US per barrel.

CHART 7. Continued High Oil Prices Expected



p = Ontario Ministry of Finance planning projection.
Sources: New York Mercantile Exchange, IntercontinentalExchange and Ontario Ministry of Finance.

The Canadian Dollar

The Canadian dollar appreciated relative to the U.S. dollar through mid-summer, averaging 104.7 cents US in July 2011. In August, intensification of European debt concerns combined with a weaker global outlook and falling commodity prices caused the Canadian dollar to slip back to below parity. Private-sector forecasters expect that, over the next four years, as global economic conditions improve and commodity prices strengthen, the Canadian dollar will average just above parity.

CHART 8. Canadian Dollar to Remain Close to Parity

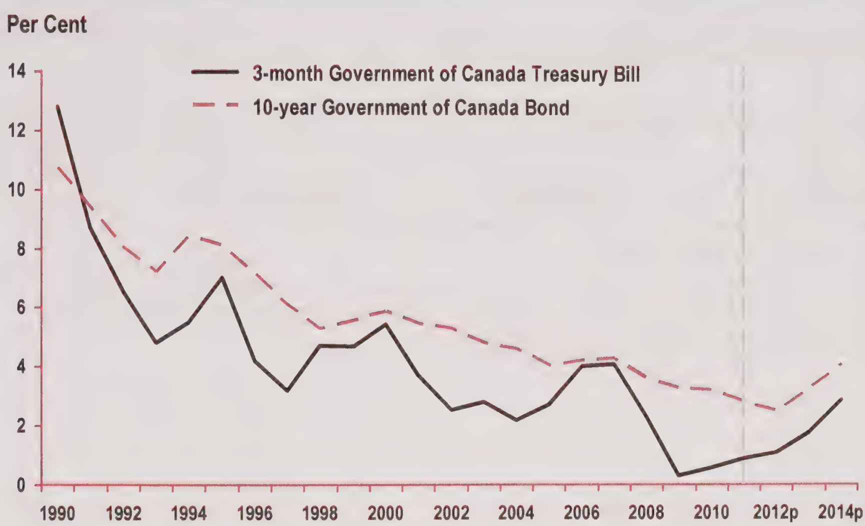
p = Ontario Ministry of Finance planning projection.
Sources: Bank of Canada and Ontario Ministry of Finance.

A higher dollar makes it more challenging for Ontario's exporters to compete internationally and for domestic firms to compete with foreign producers. However, a strong dollar also lowers the cost of importing productivity-enhancing machinery and equipment, which improves the competitive position of Ontario businesses.

Financial Markets

Long-term Canadian interest rates have declined sharply in recent months, with the yield on the 10-year Government of Canada bond falling to a record low of 2.2 per cent in September 2011. Since last September, the Bank of Canada has maintained its target for the overnight rate at one per cent, following three increases of 25 basis points through the spring and summer of 2010.

CHART 9. Interest Rates to Rise



p = Ontario Ministry of Finance planning projection.
Sources: Bank of Canada and Ontario Ministry of Finance.

With the recent weakening of the global economic outlook, the Bank of Canada is now expected to keep its target interest rate near historic lows until 2013. Private-sector economists expect the interest rate on three-month treasury bills to average 0.9 per cent this year and to rise to 2.9 per cent by 2014. The yield on 10-year Government of Canada bonds is expected to rise gradually from 2.8 per cent this year to 4.1 per cent by 2014.

Forecasts for key external factors are summarized in the table below. These are used as the basis for the Ministry of Finance forecast for Ontario's economic growth.

TABLE 3. Outlook for External Factors

	2009	2010	2011p	2012p	2013p	2014p
World Real GDP Growth (Per Cent)	(0.7)	5.1	4.0	4.0	4.5	4.7
U.S. Real GDP Growth (Per Cent)	(3.5)	3.0	1.8	2.1	2.8	2.9
West Texas Intermediate Oil[1] ($US/bbl.)	61.7	79.4	93.6	89.7	89.5	89.2
Brent Oil[1] ($US/bbl.)	61.5	79.5	111.3	106.0	101.3	96.9
Canadian Dollar (Cents US)	87.6	97.1	101.1	100.1	101.4	101.4
Three-Month Treasury Bill Rate[2] (Per Cent)	0.3	0.6	0.9	1.1	1.8	2.9
10-Year Government Bond Rate[2] (Per Cent)	3.3	3.2	2.8	2.5	3.3	4.1

p = Ontario Ministry of Finance planning projection based on external sources.

[1] Based on crude oil futures contracts over the two-week period ending October 28, 2011.

[2] Government of Canada interest rates.

Sources: U.S. Bureau of Economic Analysis, *Blue Chip Economic Indicators* (October and November 2011), IMF World Economic Outlook (September 2011), New York Mercantile Exchange, IntercontinentalExchange and Ontario Ministry of Finance Survey of Forecasts (November 8, 2011).

Table 4 provides the current estimate of the impact of changes in key external factors on the growth of Ontario's real GDP, assuming that other external factors remain stable. The relatively wide ranges of the impacts reflect uncertainty in estimates of how the economy would respond to changing external conditions.

TABLE 4. Impacts of Sustained Changes in Key External Factors on Ontario's Real GDP Growth

(Percentage Point Change)

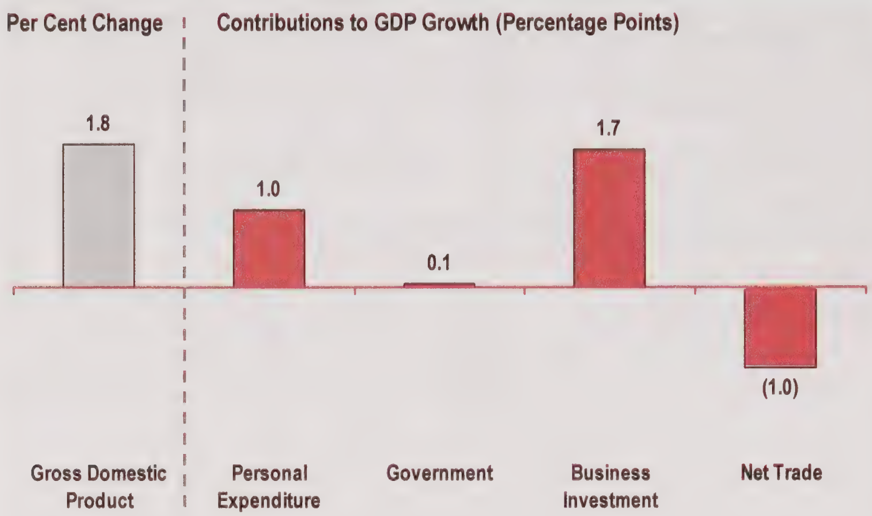
	First Year	Second Year
Canadian Dollar Appreciates by Five Cents US	−0.1 to −0.8	−0.5 to −1.2
Crude Oil Prices Increase by $10 US per Barrel	−0.1 to −0.3	−0.1 to −0.3
U.S. Real GDP Growth Increases by One Percentage Point	+0.3 to +0.7	+0.4 to +0.8
Canadian Interest Rates Increase by One Percentage Point	−0.1 to −0.5	−0.2 to −0.6

Source: Ontario Ministry of Finance.

Outlook for Ontario Economic Growth

For 2011 as a whole, the Ministry of Finance is projecting growth of 1.8 per cent in Ontario real GDP. Rising consumer and business investment spending will support growth this year while net trade is expected to lag the overall economy.

CHART 10. Contributions to Real GDP Growth in 2011



Source: Ontario Ministry of Finance.

Employment is forecast to increase by 1.8 per cent in 2011, or 120,000 net new jobs. Strong employment gains and higher personal incomes have supported increases in household spending. Retail sales are projected to grow 3.4 per cent this year while housing starts are expected to increase 12.7 per cent. Business investment is expected to increase by a strong 15.7 per cent this year, benefiting from the higher exchange rate and Ontario's improved tax competitiveness.

However, a challenging external environment and, in particular, the weak U.S. economy are expected to contribute to a small 2.8 per cent gain in Ontario exports this year. Imports are projected to grow by 4.2 per cent in 2011. As a result, net external trade will detract from growth.

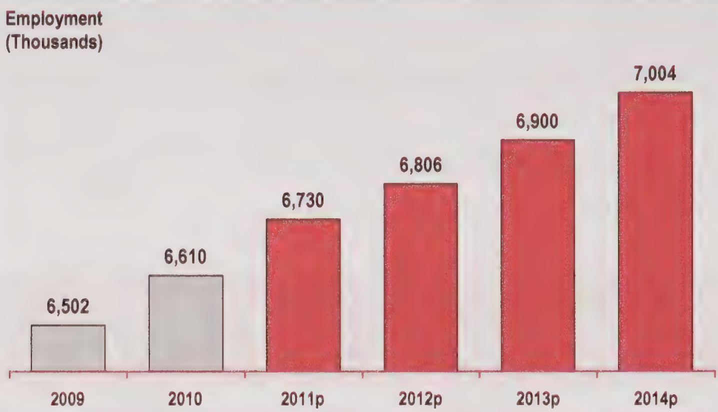
The Ministry of Finance is projecting continued growth in Ontario's economy. Real GDP is projected to grow by 1.8 per cent in 2012, 2.5 per cent in 2013 and 2.6 per cent in 2014. Domestic demand is projected to remain a source of strength, supported by gains in household spending, a solid housing market and strong business capital investment. Growth in international demand, particularly from the United States, is expected to be modest, limiting gains to Ontario's net trade position over the forecast period.

CHART 11. Ontario Real GDP Growth

p = Ontario Ministry of Finance planning projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

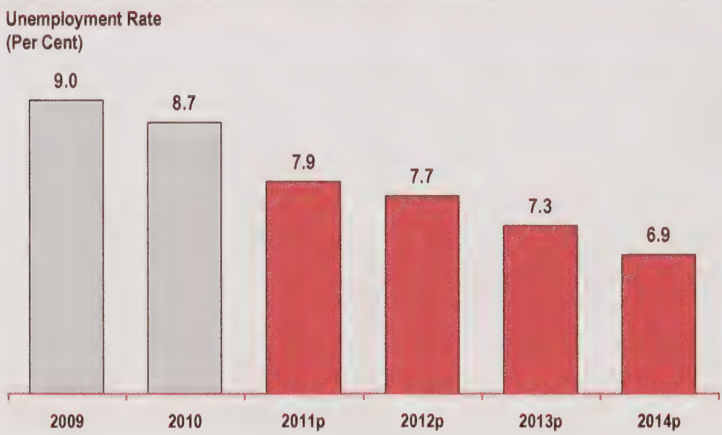
Over the 2012–14 period, **employment** growth is expected to average 1.3 per cent annually. The unemployment rate is expected to continue trending lower from an annual average of 7.9 per cent in 2011 to 6.9 per cent by 2014.

CHART 12. **Increasing Employment**



p = Ontario Ministry of Finance planning projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

CHART 13. **Lower Unemployment Rate**

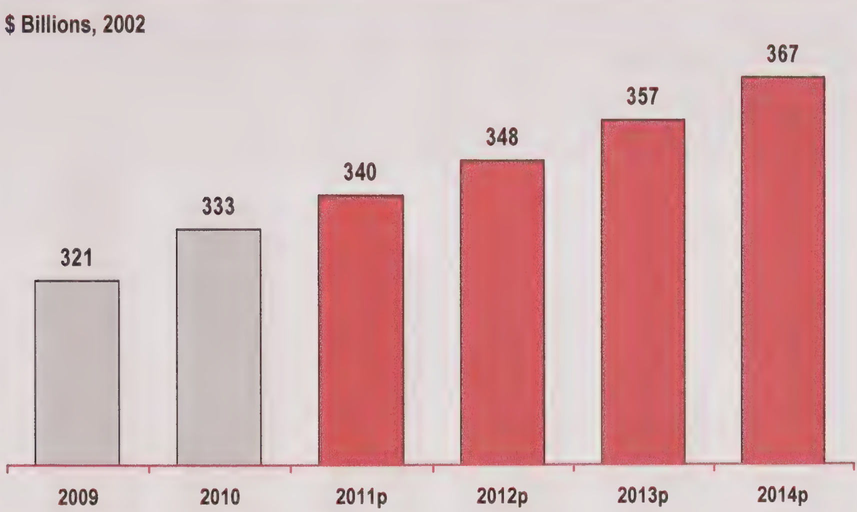


p = Ontario Ministry of Finance planning projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

Labour income is expected to increase on average by 4.1 per cent annually over the 2012 to 2014 period. Similarly, personal income growth is projected to average 4.1 per cent annually over the same period.

Job gains, personal income growth and relatively low interest rates will support continuing gains in **household spending** over the forecast period. Real consumer spending is expected to rise by 2.3 per cent this year and in 2012.

CHART 14. Sustained Gains in Household Spending

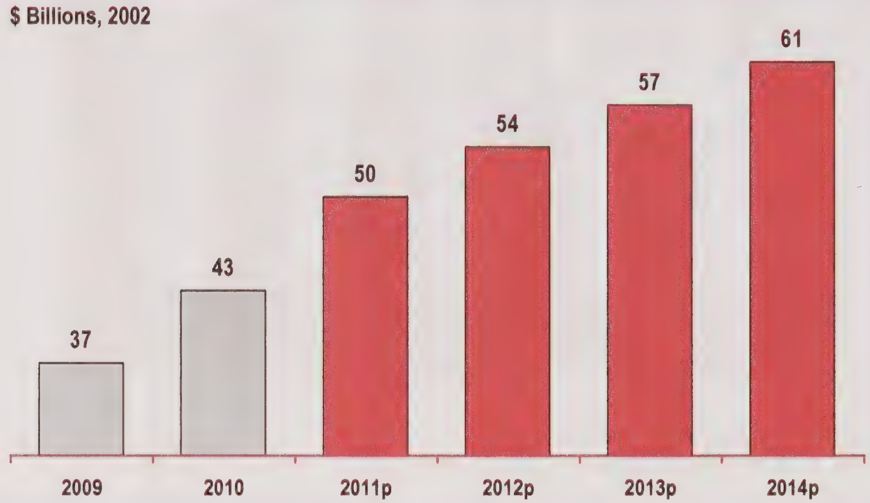


p = Ontario Ministry of Finance planning projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

A rise in gasoline pump prices, driven by higher oil costs, was largely responsible for pushing Ontario's **consumer price index** (CPI) higher in 2011. However, this is expected to reverse in 2012, with lower average gasoline prices contributing to more moderate consumer price inflation. Ontario's CPI is forecast to increase by an average of 2.0 per cent per year over the 2012 to 2014 period, the mid-point of the Bank of Canada's target range for Canadian CPI inflation.

Rising **corporate profits** and improved tax competitiveness from Ontario's Tax Plan for Jobs and Growth — including the Harmonized Sales Tax (HST) — are supporting strong growth in **business investment**. Corporate profits rose 19.1 per cent in 2010 and are projected to increase by a further 7.3 per cent in 2011. Ontario's businesses have responded by increasing real investment in machinery and equipment by 15.2 per cent in 2010 and by an estimated 17 per cent in 2011. Real business investment in plant and equipment is forecast to increase by an average annual rate of 6.2 per cent over the 2012 to 2014 period.

CHART 15. Sustained Gains in Business Machinery and Equipment Spending



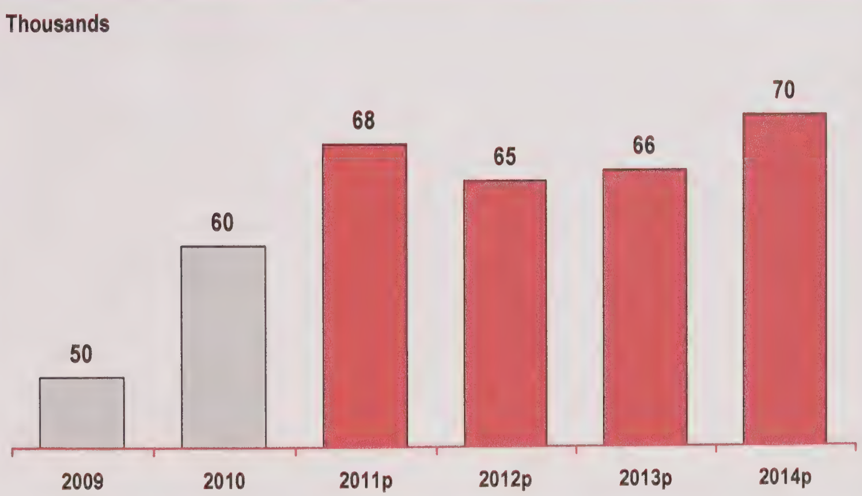
p = Ontario Ministry of Finance planning projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

Continuing steady gains in U.S. auto sales and relatively strong growth in demand from emerging markets will support Ontario **exports**. Real exports are projected to rise by 2.8 per cent in 2011 and 2.6 per cent in 2012.

The Ontario **housing market** remains well balanced, supported by healthy fundamentals and record low mortgage rates. Home resales are expected to moderate in 2012 and 2013 from the strong levels experienced in 2010 and 2011. House price gains are also expected to be more subdued, increasing by an average of nearly three per cent per year from 2011 to 2014.

Demand for new homes in Ontario will continue to be sustained by population growth, which is projected to average 1.2 per cent annually over the next three years, consistent with recent experience. This will mean an additional 490,000 people living in the province by 2014. Housing starts are projected to exceed 70,000 units per year by 2014.

CHART 16. **Housing Starts to Remain Strong**



p = Ontario Ministry of Finance planning projection.
Sources: Canada Mortgage and Housing Corporation and Ontario Ministry of Finance.

The rising level of household debt remains a key risk for the outlook. Record low interest rates have allowed households to increase debt levels over the past several years. With interest rates expected to remain near record lows into 2013, debt servicing costs should remain affordable in the near term. However, rising debt levels may place some households in a vulnerable position when interest rates eventually begin to rise to more historically normal levels.

Details of the Ontario Economic Outlook

The following table provides details of the Ministry of Finance's economic outlook for 2011 to 2014.

TABLE 5. The Ontario Economy, 2009 to 2014

(Per Cent Change)

	Actual		Projection			
	2009	**2010**	**2011**	**2012**	**2013**	**2014**
Real Gross Domestic Product	(3.2)	3.0	1.8	1.8	2.5	2.6
Personal Consumption	0.2	3.6	2.3	2.3	2.6	2.7
Residential Construction	(8.7)	8.3	3.8	1.8	2.1	1.8
Non-residential Construction	(11.4)	(1.6)	11.0	3.9	5.6	5.4
Machinery and Equipment	(18.5)	15.2	17.0	7.6	6.0	5.9
Exports	(12.6)	7.5	2.8	2.6	4.0	3.8
Imports	(10.4)	13.3	4.2	1.6	3.2	3.0
Nominal Gross Domestic Product	(0.9)	5.3	4.0	3.7	4.4	4.5
Other Economic Indicators						
Retail Sales	(2.5)	5.4	3.4	4.0	3.9	4.3
Housing Starts (000s)	50.4	60.4	68.1	65.3	66.1	70.3
Personal Income	0.2	4.2	3.3	3.1	4.5	4.7
Labour Income	(0.6)	3.9	3.7	3.6	4.3	4.4
Corporate Profits	(14.9)	19.1	7.3	6.0	5.5	4.8
Consumer Price Index	0.4	2.5	3.2	2.0	2.0	2.0
Employment	(2.5)	1.7	1.8	1.1	1.4	1.5
Job Creation (000s)	(164)	108	120	76	94	105
Unemployment Rate (Per Cent)	9.0	8.7	7.9	7.7	7.3	6.9
Key External Variables						
U.S. Real Gross Domestic Product	(3.5)	3.0	1.8	2.1	2.8	2.9
WTI Crude Oil ($ US per Barrel)	61.7	79.4	93.6	89.7	89.5	89.2
Canadian Dollar (Cents US)	87.6	97.1	101.1	100.1	101.4	101.4
3-month Treasury Bill Rate*	0.3	0.6	0.9	1.1	1.8	2.9
10-year Government Bond Rate*	3.3	3.2	2.8	2.5	3.3	4.1

* Government of Canada interest rates (per cent).

Sources: Statistics Canada, Canada Mortgage and Housing Corporation, Bank of Canada, U.S. Bureau of Economic Analysis, *Blue Chip Economic Indicators* (October and November 2011), New York Mercantile Exchange and Ontario Ministry of Finance.

Private-Sector Forecasts

The Ministry of Finance consults with private-sector economists and tracks their forecasts in order to inform the government's planning assumptions. In the process of preparing the *Ontario Economic Outlook and Fiscal Review*, the Minister of Finance met with private-sector economists to hear their views on the economy. These forecasters included members of the Ontario Economic Forecast Council, established by the *Fiscal Transparency and Accountability Act, 2004*. All of these private-sector economists are forecasting continued growth for the Ontario economy over the rest of 2011 and the next three years. On average, private-sector forecasters are projecting growth of 1.9 per cent in 2012, 2.6 per cent in 2013 and 2.7 per cent in 2014.

TABLE 6. Private-Sector Forecasts for Ontario Real GDP Growth
(Per Cent)

	2011	2012	2013	2014
BMO Capital Markets (November)	2.1	1.9	–	–
Central 1 Credit Union (November)	2.1	1.8	2.6	3.3
Centre for Spatial Economics (November)	2.3	2.1	2.2	1.7
CIBC World Markets (November)	2.0	1.8	2.3	–
Conference Board of Canada (October)	1.8	2.2	3.3	2.7
Desjardins Group (October/September)	2.0	1.9	2.5	2.5
IHS Global Insight (November)	2.0	1.8	2.5	2.8
Laurentian Bank Securities (September)	1.8	1.9	–	–
National Bank (October)	2.1	1.6	–	–
RBC Financial Group (September)	2.3	2.4	–	–
Scotiabank Group (November)	2.0	1.5	–	–
TD Bank Financial Group (September)	2.3	2.1	2.7	–
University of Toronto (October)	1.8	1.8	3.0	3.2
Private-Sector Survey Average	**2.0**	**1.9**	**2.6**	**2.7**
Ontario's Planning Assumption	**1.8**	**1.8**	**2.5**	**2.6**

Sources: Ontario Ministry of Finance Survey of Forecasts (November 8, 2011) and Ontario Ministry of Finance.

Comparison to the *2011 Ontario Budget*

Forecasts for growth are lower than projected at the time of the *2011 Budget*. The slower projected growth for Ontario reflects a weaker U.S. economic recovery as well as increased uncertainty surrounding the prospects for the global economy.

TABLE 7. Changes in Key Economic Forecast Assumptions
2011 Fall Economic Statement* Compared to *2011 Budget

(Per Cent Change)

	2011		2012		2013	
	2011 Budget	2011 FES	2011 Budget	2011 FES	2011 Budget	2011 FES
Real Gross Domestic Product	2.4	1.8	2.7	1.8	2.7	2.5
Nominal Gross Domestic Product	4.6	4.0	5.1	3.7	4.8	4.4
Retail Sales	4.1	3.4	4.3	4.0	4.0	3.9
Housing Starts (000s)	58.6	68.1	63.8	65.3	66.5	66.1
Personal Income	4.2	3.3	4.4	3.1	4.6	4.5
Labour Income	4.3	3.7	4.7	3.6	4.8	4.3
Corporate Profits	12.2	7.3	9.2	6.0	5.9	5.5
Employment	1.7	1.8	1.8	1.1	1.8	1.4
Job Creation (000s)	116	120	118	76	126	94
Key External Variables						
WTI Crude Oil ($ US per Barrel)	99.7	93.6	102.2	89.7	100.6	89.5
U.S. Real Gross Domestic Product	3.1	1.8	3.3	2.1	3.2	2.8
Canadian Dollar (Cents US)	100.0	101.1	99.7	100.1	99.3	101.4
3-month Treasury Bill Rate* (Per Cent)	1.4	0.9	2.6	1.1	3.7	1.8
10-year Government Bond Rate* (Per Cent)	3.5	2.8	4.1	2.5	4.7	3.3

* Government of Canada interest rates.

Sources: New York Mercantile Exchange, *Blue Chip Economic Indicators* (March, October and November 2011) and Ontario Ministry of Finance.

CHAPTER III

FISCAL OUTLOOK

Highlights

- ☑ The Province remains on track to meet its fiscal targets, while making smart investments to encourage economic growth and job creation.
- ☑ 2011–12 deficit outlook— $16.0 billion, $0.3 billion ahead of the *2011 Budget* forecast target.
- ☑ The *2011 Budget* outlined a plan to hold average annual growth in program expense to 1.4 per cent until the budget is balanced in 2017–18. Given the extended period of modest economic growth expected, the Commission on the Reform of Ontario's Public Services is expected to recommend that the target for spending growth should be one per cent.
- ☑ The proposed Healthy Homes Renovation Tax Credit would be funded using reductions in other programs.

Section A: Overview

Over the last eight months, the global economy has seen a widespread, downward shift in projections for economic growth. As a result of pressures from outside Ontario, the Province continues to face economic challenges. This means a modest pace of economic growth, which directly impacts how the government will manage fiscal planning. This is particularly relevant when it comes to balancing the implementation of new programs and protecting public services while meeting the targets for eliminating the deficit.

The *2011 Budget* outlined a plan to hold average annual growth in program expense to 1.4 per cent until the budget is balanced in 2017–18. Given the extended period of modest economic growth expected, the Commission on the Reform of Ontario's Public Services is expected to recommend that the target for spending growth should be one per cent. The government will consider this and other advice as it prepares for the *2012 Budget*.

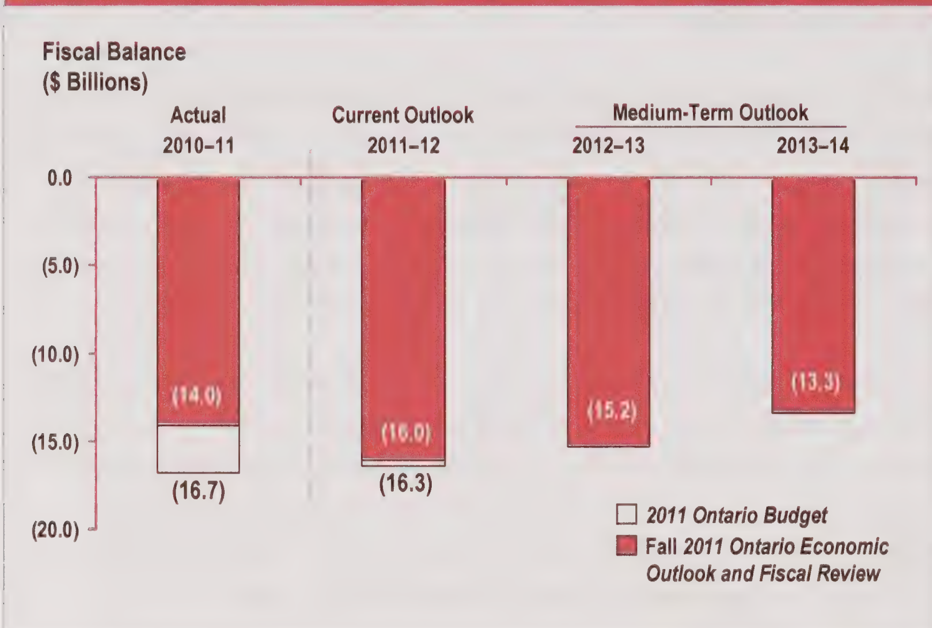
Consistent with this, any new spending initiatives will be paid for through offsetting savings from other areas or through the reform of public service delivery. The proposed Healthy Homes Renovation Tax Credit, if passed by the legislature, would help support jobs and economic activity while helping seniors live with independence and dignity in their own home. It also costs taxpayers less for care to be provided at home than in a long-term care facility. This new measure would be funded using reductions in other programs.

Eliminating the deficit by 2017–18 and maintaining balanced budgets beyond that time as demographic trends exert increasing pressure on government programs will require fundamental reform of the delivery of public services. The Commission on the Reform of Ontario's Public Services will make recommendations for the government's consideration in time for the *2012 Budget*.

The Province remains on track to meet the fiscal targets projected in the *2011 Budget* and the *First Quarter Ontario Finances.* This includes a $16.0 billion deficit in 2011–12 and steadily declining deficits of $15.2 billion in 2012–13 and $13.3 billion in 2013–14.

This chapter outlines Ontario's fiscal outlook for 2011–12 and the medium-term forecast for 2012–13 and 2013–14.

CHART 1. Ontario's Medium-Term Fiscal Outlook



Section B: 2011–12 Fiscal Performance

The 2011–12 deficit is currently projected to be $16.0 billion, an improvement of $0.3 billion compared with the *2011 Budget* and consistent with the outlook presented in the *First Quarter Ontario Finances*.

The Province's total revenue for 2011–12 is projected to be $443 million lower than the *2011 Budget* forecast. Excluding the impact of the one-time loan repayment from Chrysler Canada Inc. and other first-quarter changes, the revenue forecast is $778 million lower than in the *2011 Budget*, mainly reflecting the impact of slower economic growth on Ontario's revenue.

The 2011 Budget Plan included a $700 million reserve in 2011–12 to protect against the potential impact of events that could deteriorate the Province's fiscal performance. The reserve for 2011–12 has been reduced by $500 million to counter the impact of slower economic growth on Ontario's fiscal performance. This amount is less than the $778 million decrease in revenue since the first quarter.

Program expense has been maintained at *2011 Budget* levels. Total expense is projected to decrease primarily due to lower interest on debt expense resulting from lower interest rates than projected at the time of the *Budget* and the lower deficit in 2010–11.

TABLE 1. **2011–12 In-Year Fiscal Performance[1]**

($ Millions)

	Budget Plan	Current Outlook	Change Since Budget
Revenue[2]	**108,717**	**108,275**	**(443)**
Expense			
Programs	114,043	113,971	(72)
Interest on Debt	10,290	10,097	(193)
Total Expense	**124,333**	**124,068**	**(264)**
Reserve	700	200	(500)
Surplus/(Deficit)	**(16,316)**	**(15,994)**	**322**

[1] Budget plan revenue and expense have been restated from what was shown in the *2011 Budget* to reflect a fiscally neutral accounting change. See note at the bottom of Table 11 for more information.

[2] Excluding the impact of the one-time loan repayment from Chrysler and other first-quarter changes, total revenue declined by $778 million.

Note: Numbers may not add due to rounding.

2011–12 Revenue Changes Since the *2011 Budget*

The 2011–12 revenue projection at $108,275 million is $443 million lower than the *2011 Budget* outlook as a result of slower economic growth. The revenue decline in 2011–12 is mitigated by the Chrysler loan repayment previously announced in the *First Quarter Ontario Finances*.

TABLE 2. Summary of Revenue Changes Since the *Budget*[1]
($ Millions)

		2011–12
Taxation		
Personal Income Tax	(721)	
Corporations Tax	30	
Ontario Health Premium	(129)	
Land Transfer Tax	125	
Other Taxes	59	
Electricity Payments-in-Lieu of Taxes	(14)	
Total Taxation		**(650)**
Government of Canada		**(175)**
Government Business Enterprises		**(39)**
Other Non-Tax Revenue		
Chrysler Loan Repayment	468	
Other Non-Tax Revenue	(46)	
Total Other Non-Tax Revenue		**422**
Total Revenue Changes Since the *Budget*		**(443)**

[1] See note at the bottom of Table 11 for more information regarding the fiscally neutral accounting change.
Note: Numbers may not add due to rounding.

Details of 2011–12 In-Year Revenue Changes

Key revenue changes since the *2011 Budget* forecast include:

- **Personal Income Tax** (PIT) revenue is projected to be $721 million, or 2.8 per cent, lower due to slower 2011 and 2012 economic growth and weaker 2010 results based on tax returns processed since the *2011 Budget*. The PIT change also reflects a positive $27 million impact in 2011–12 due to the 2011 federal budget measures as previously announced in the *First Quarter Ontario Finances*.

- **Corporations Tax** (CT) revenue is up $30 million, reflecting the impact of the 2011 federal budget measures as previously announced in the *First Quarter Ontario Finances*.
- **Ontario Health Premium** revenue is projected to be $129 million, or 4.2 per cent, lower due to slower economic growth in 2011 and 2012 and weaker 2010 results based on tax returns processed since the *2011 Budget*.
- **Land Transfer Tax** revenue is expected to be $125 million, or 10.0 per cent, higher consistent with recent strength in the Ontario housing market.
- **Other Taxes** are forecast to be $59 million higher due to stronger 2011 instalment payments and prior-year reassessments of Mining Tax.
- **Electricity Payments-in-Lieu of Taxes** are $14 million lower due to the Ontario Energy Board's March 10, 2011 decision with respect to Ontario Power Generation Inc.'s rate application for 2011 and 2012, previously reported in the *First Quarter Ontario Finances*.
- **Government of Canada** transfers are projected to decrease by $175 million, or 0.8 per cent, largely due to a $150 million downward revision to Ontario's Equalization entitlement for 2011–12. This is a result of the federal government calculation error as previously reported in the *First Quarter Ontario Finances*. In addition, there is a $36 million reduction in infrastructure revenue related to the federal Residential Rehabilitation Assistance Program funding that will now flow directly from the federal government to municipalities rather than through the Province. These decreases are partially offset by an $11 million increase for approved projects under the Ontario Small Town and Rural Development Infrastructure Initiative as previously announced in the *First Quarter Ontario Finances*.
- The $39 million decrease in net income from **Government Business Enterprises** reflects the Ontario Energy Board decision noted above.

- **Other Non-Tax Revenue** is projected to increase by $422 million, largely reflecting:
  - a $468 million gain from Chrysler's repayment of an Ontario loan as previously announced in the *First Quarter Ontario Finances*; and
  - a $46 million fiscally neutral net decrease in Non-Tax Revenue reflecting revenue changes that have been offset by lower 2011–12 expense.

2011–12 Expense Changes Since the *2011 Budget*

Total expense has decreased by $264.4 million primarily due to lower interest on debt expense resulting from lower interest rates than forecast at the time of the *2011 Budget* and the lower deficit in 2010–11.

TABLE 3. Summary of Expense Changes Since the *Budget*[1]
($ Millions)

	2011–12
Program Expense Changes	
Proposed Healthy Homes Renovation Tax Credit	60.0
Savings in business support programs and tax-related expenditures	(60.0)
Emergency forest firefighting	175.0
Pan/Parapan American Games athletes' village	52.0
Other program expenses	9.6
Contingency funds	(308.1)
Total Program Expense Changes	**(71.6)**
Interest on Debt	(192.9)
Total Expense Changes Since the *Budget*	**(264.4)**

[1] See note at the bottom of Table 11 for more information regarding the fiscally neutral accounting change.
Note: Numbers may not add due to rounding.

Details of 2011–12 In-Year Expense Changes

Key 2011–12 expense changes from the *2011 Budget* forecast include:

- An increase of $60.0 million for the proposed **Healthy Homes Renovation Tax Credit**.

- $60.0 million in **savings in business support programs and tax-related expenditures**, identified from lower spending on existing business support programs in the Ministry of Economic Development and Trade, as well as lower-than-forecast costs for tax-related expenditures in the Ministry of Revenue. These savings fully offset the cost of the proposed Healthy Homes Renovation Tax Credit in 2011–12.
- An increase of $175.0 million for **emergency forest firefighting**, to provide additional resources during the 2011 fire season, the second-largest fire season for hectares burned since recordkeeping began in 1917.
- An increase of $52.0 million for the **Pan/Parapan American Games athletes' village** to support initial construction work at the site of the village. The work will move forward construction costs that were planned for future years, and will help ensure Ontario is ready for the Games in 2015 without increasing the total cost of the village.
- A net increase of $9.6 million in **other program expenses**, including Disaster Relief Assistance for the Town of Goderich, the surrounding area and victims impacted by the August 2011 tornado; and for Ontario Bridge Training programs.
- A net decrease of $308.1 million in the **contingency funds**, reflecting the balance of changes in program expense.

Interest on Debt expense is $192.9 million lower than forecast in the *2011 Budget*. This reduction primarily reflects the impact of lower interest rates than those projected at the time of the *Budget*, and the lower deficit in 2010–11.

Section C: Ontario's Medium-Term Fiscal Outlook

Medium-Term Revenue Outlook

The medium-term revenue forecast reflects the Ministry of Finance's economic outlook and the estimated impact of government policy measures.

TABLE 4. Summary of Medium-Term Revenue Outlook[1]
($ Billions)

Revenue	Actual 2010–11	Projected Outlook 2011–12	2012–13	2013–14
Taxation Revenue	71.1	74.6	77.8	81.1
Government of Canada	23.0	21.6	21.6	22.8
Income from Government Business Enterprises	4.6	4.5	4.8	5.2
Other Non-Tax Revenue	7.9	7.6	7.2	7.2
Total Revenue	**106.7**	**108.3**	**111.3**	**116.3**

[1] See note at the bottom of Table 11 for more information regarding the fiscally neutral accounting change.
Note: Numbers may not add due to rounding.

The medium-term **Taxation Revenue** outlook reflects current revenue information and projections for the Province's economic growth as outlined in Chapter II: *Ontario's Economic Outlook*.

The forecast for **Government of Canada** transfers is based on existing federal–provincial funding arrangements. The decline from 2010–11 to 2011–12 is largely due to the decline in federal transitional assistance related to the introduction of the Harmonized Sales Tax and lower stimulus funding for infrastructure and labour market programs.

The outlook for **Income from Government Business Enterprises** (GBEs) is based on projections from the GBEs. Revenue is projected to decline slightly in 2011–12, largely due to the Ontario Lottery and Gaming Corporation's strong performance in 2010–11, and Ontario First Nations' receipt, beginning in 2011, of 1.7 per cent of gross gaming revenues under the Gaming Revenue Sharing and Financial Agreement, projected at $117 million in 2011–12. Over the forecast period, revenue is projected to grow at an average annual rate of 4.4 per cent. The forecast for GBEs includes $200 million in efficiencies by 2013–14 that the government has instructed its agencies to deliver.

The forecast for **Other Non-Tax Revenue** is based on projections provided by government ministries and provincial agencies. The decrease in 2011–12 reflects the government's previously announced decision to upload the municipal share of Ontario Disability Support Program costs and the full-year impact of the replacement of certain alcohol charges, including Beer and Wine Fees, with taxes beginning on July 1, 2010. The further decline in 2012–13 reflects one-time factors that boosted Non-Tax Revenues in each of 2010–11 and 2011–12. These included, in 2010–11, the sale of a portion of the Province's General Motors shares and the Province's share of civil agreements with certain tobacco manufacturers and, in 2011–12, receipts from the repayment of an Ontario loan by Chrysler, as discussed in the *First Quarter Ontario Finances*.

Medium-Term Revenue Changes Since the *2011 Budget*

TABLE 5. Summary of Medium-Term Revenue Changes Since the *Budget*[1]

($ Billions)

Source of Change	2011–12	2012–13	2013–14
Taxation Revenue	(0.7)	(0.5)	(0.6)
Equalization Payments	(0.2)	(0.2)	(0.3)
Other Revenue	0.4	0.0	0.0
Total Revenue Changes	**(0.4)**	**(0.8)**	**(0.9)**

[1] See note at the bottom of Table 11 for more information regarding the fiscally neutral accounting change.
Note: Numbers may not add due to rounding.

The lower medium-term revenue outlook is largely due to lower taxation revenue and a downward revision to Ontario's Equalization entitlement for 2011–12 as a result of a federal government calculation error.

The outlook for **Taxation Revenue** is lower due to slower economic growth and a lower estimated 2010 tax base indicated by tax returns processed since the *2011 Budget*. There is an additional one-time impact in 2011–12 reflecting variances from the *2010–11 Public Accounts*.

Equalization Payments are lower over the medium term due to a downward revision to Ontario's entitlement for 2011–12 as a result of a federal government calculation error. This revision impacted the forecast going forward.

The $0.4 billion increase in **Other Revenue** in 2011–12 largely reflects Chrysler's repayment of its Ontario loan discussed above. The forecast for Other Revenue also reflects fiscally neutral revenue changes referenced in Section B of this chapter.

Medium-Term Expense Outlook

Total expense is projected to grow to $128.7 billion by 2013–14 — below the forecast included in the *2011 Budget* — primarily due to lower interest on debt expense.

Program expense over the medium term is consistent with the 2011 Budget Plan. This includes the impact of the proposed Healthy Homes Renovation Tax Credit announced in this *Ontario Economic Outlook and Fiscal Review* to help support jobs and economic activity, which has been accommodated without increasing overall program spending.

The government is committed to balancing the implementation of new programs and protecting public services while meeting the targets for eliminating the deficit.

Medium-Term Fiscal Outlook

Despite forecasts of slower economic growth, the Province is on track to meet the fiscal targets laid out in the *2011 Budget*. Ontario's fiscal outlook continues to project steadily declining deficits of $16.0 billion in 2011–12, $15.2 billion in 2012–13 and $13.3 billion in 2013–14.

Provincial revenue is now projected to grow at a slower rate than forecast, primarily due to lower economic growth projections for Ontario.

Total expense is now forecast to be lower than projected at the time of the *2011 Budget*, primarily due to lower interest on debt expense.

A $1.0 billion reserve has been maintained for 2012–13 and 2013–14, recognizing ongoing global economic uncertainty and the significant volatility that could cause variances to both the Province's revenue and expense outlooks.

To continue the progress Ontarians have made in building strong public health care and education, the Province must now sharpen its focus on managing growth in spending. Ontario has had success in meeting this challenge in the very recent past by lowering growth in program spending from about seven per cent to approximately four per cent last year.

The government remains committed to the fiscal targets laid out in the *2011 Budget*. At that time the government presented a plan to hold average annual growth in program expense to 1.4 per cent until the budget is balanced in 2017–18. The Province will have to find better, more efficient ways to invest in key priority areas. Given the current economic uncertainty, the Commission on the Reform of Ontario's Public Services is expected to recommend that the target for spending growth should be one per cent. The government will consider this and other advice as it prepares for the *2012 Budget*.

Section D: Federal–Provincial Fiscal Arrangements

Over the last few years, the Province has worked with the federal government to promote economic growth and job creation to meet the challenge of a global recession, including providing financial support to the auto industry. The Province has also urged the federal government to address unfair treatment of Ontarians in the Canadian federation. Progress has been made on both these fronts, including recent federal legislation to increase the number of Ontario's representatives in the federal House of Commons by 15 to 121. But more work remains to be done.

Historically, Ontario has been Canada's economic engine, supporting investments in other provinces and the delivery of vital public services across the country. While Ontario's economy has in many respects recovered from the global recession, continuing global economic uncertainty requires ongoing and enhanced investment in the foundation for sustained economic growth and job creation.

A key component of sustained economic growth and job creation is a strong workforce. Although the Province continues to invest in the tools that Ontarians need to prosper in the new economy, the federal Employment Insurance program is still failing to meet the needs of Ontario's unemployed workers and the modern labour market.

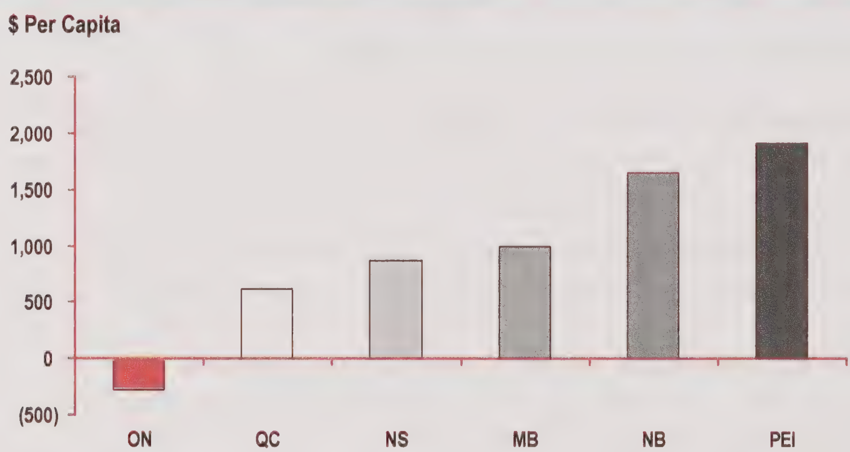
The federal government supports industries like the oil industry. Ontario looks to the federal government to invest in the province's future as a leader in green energy.

Ontario welcomes the federal government's commitment to a six per cent annual increase in the Canada Health Transfer for the duration of the next health accord. The Province has called on the federal government to begin discussions with provincial and territorial governments on a new Ten-Year Health Accord, which would also include additional funding for seniors' care and home care. These discussions must start as soon as possible in order to complete a new accord by the end of 2012.

In 2011–12, the Ontario government expects to receive $2.2 billion in Equalization payments, while Ontarians will contribute about $5.8 billion to the program. The $3.6 billion difference between what Ontarians pay into the Equalization program and the Province receives back from the program enables other provinces to reduce taxes, build roads and deliver public services to the people who live there.

Ontario is the only province that receives Equalization payments and that also sees its taxpayers pay more into the program than their government receives. Although the Province will receive 15 per cent of Equalization payments this year, Ontario taxpayers will contribute almost 40 per cent of the program's cost. That is unfair. Equalization to other provinces costs each Ontarian about $270 this year.

CHART 2. Net Cost of Equalization to Ontarians (2011–12)



Net Contribution represents Equalization payments received less taxpayer contributions through federal revenue.
Source: Ontario Ministry of Finance.

Canada's transfer system should help — not hinder — the Ontario government's ability to invest in the provincial economy. Reform of the federal transfer system must include more than the Canada Health Transfer. Increases in the Canada Health Transfer must not come at the expense of other important transfers such as the Canada Social Transfer and those that support services and programs like labour-market training, reducing health care wait times and infrastructure.

Federal initiatives should not undermine the ability of provincial governments to fund and deliver services that their taxpayers require, like health care and education, by forcing scarce resources to be diverted elsewhere. Accordingly, Ontario recently joined the Quebec government in asking the federal government to provide additional funding to address any provincial costs that may result from proposed changes to the criminal justice system. Ontario is also calling on the federal government to ensure that proposed measures such as income splitting and Tax-Free Savings Accounts do not adversely affect the Province's capacity to fund core public services.

Ontarians demand that their federal and provincial governments work together. They also rightly demand that, as taxpayers, they be treated fairly.

The Ontario government looks forward to working with the federal government and other provincial and territorial governments to realize a comprehensive, equitable and efficient system of federal transfers that supports the sustainable delivery of quality services like health care across the country.

Section E: Details of Ontario's Finances

This section provides information on the Province's current fiscal outlook, historical financial performance and key fiscal indicators.

TABLE 6. Medium-Term Fiscal Plan and Outlook
($ Billions)

	Actual	Projected Outlook		
	2010–11[1]	2011–12	2012–13	2013–14
Revenue	**106.7**	**108.3**	**111.3**	**116.3**
Expense				
Programs	111.2	114.0	114.9	117.0
Interest on Debt[2]	9.5	10.1	10.6	11.7
Total Expense	**120.7**	**124.1**	**125.5**	**128.7**
Reserve	–	0.2	1.0	1.0
Surplus/(Deficit)	**(14.0)**	**(16.0)**	**(15.2)**	**(13.3)**
Net Debt	214.5	238.4	261.8	281.8
Accumulated Deficit	144.6	160.6	175.7	189.1

[1] In the *2011 Budget*, the interim projection for the 2010–11 deficit was $16.7 billion.

[2] Interest on Debt expense is net of interest capitalized during construction of tangible capital assets of $0.2 billion in 2010–11, $0.3 billion in 2011–12, $0.3 billion in 2012–13 and $0.4 billion in 2013–14.

Note: Numbers may not add due to rounding.

CHART 3. Ontario's Medium-Term Fiscal Outlook

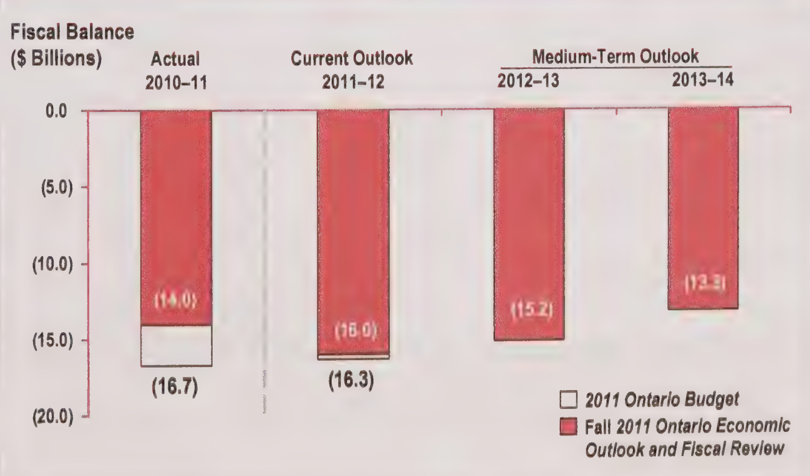


TABLE 7. Revenue
($ Millions)

	2008–09	2009–10	Actual 2010–11	Current Outlook 2011–12
Taxation Revenue				
Personal Income Tax	25,738	23,393	23,624	24,779
Sales Tax[1]	17,021	17,059	18,813	20,134
Corporations Tax	6,748	5,615	8,383	8,904
Education Property Tax[2]	5,696	5,626	5,913	5,727
Employer Health Tax	4,617	4,545	4,733	4,991
Ontario Health Premium	2,776	2,763	2,934	2,945
Gasoline Tax	2,323	2,336	2,358	2,392
Land Transfer Tax	1,013	1,015	1,247	1,374
Tobacco Tax	1,044	1,083	1,160	1,142
Fuel Tax	698	658	702	721
Beer and Wine Tax (replacing Fees)[3]	–	–	397	538
Electricity Payments-In-Lieu of Taxes	830	516	321	518
Other Taxes	352	322	562	455
	68,856	**64,931**	**71,147**	**74,620**
Government of Canada				
Canada Health Transfer	8,942	9,791	10,184	10,713
Canada Social Transfer	4,079	4,204	4,330	4,460
Equalization	–	347	972	2,200
Infrastructure Programs	151	990	1,712	513
Labour Market Programs	797	1,253	1,201	891
Social Housing	520	498	493	482
Wait Times Reduction Fund	235	97	97	97
Other Federal Payments	1,867	1,440	4,052	2,200
	16,591	**18,620**	**23,041**	**21,556**
Government Business Enterprises				
Ontario Lottery and Gaming Corporation	1,921	1,924	1,956	1,738
Liquor Control Board of Ontario	1,410	1,440	1,562	1,641
Ontario Power Generation Inc./Hydro One Inc.	713	854	1,048	1,092
Other Government Enterprises	(2)	(23)	–	–
	4,042	**4,195**	**4,566**	**4,471**
Other Non-Tax Revenue				
Reimbursements	1,379	1,429	1,036	791
Vehicle and Driver Registration Fees	1,034	1,057	1,080	1,084
Electricity Debt Retirement Charge	970	907	944	931
Power Supply Contract Recoveries	953	1,409	1,288	1,351
Sales and Rentals	733	647	1,015	1,021
Other Fees and Licences	683	717	715	788
Beer and Wine Fees (replaced by Tax)[3]	459	451	181	–
Net Reduction of Power Purchase Contract Liability	373	348	339	317
Royalties	205	228	145	218
Miscellaneous Other Non-Tax Revenue	655	854	1,161	1,127
	7,444	**8,047**	**7,904**	**7,628**
Total Revenue	**96,933**	**95,793**	**106,658**	**108,275**

[1] Sales Tax in 2010–11 includes Retail Sales Tax (RST) and Harmonized Sales Tax (HST). The RST was replaced with a value-added tax and combined with the federal Goods and Services Tax to create a federally administered HST. Sales Tax revenue includes the Ontario Sales Tax Credit and the energy component of the Ontario Energy and Property Tax Credit.

[2] Education Property Tax revenue includes the property tax credit component of the Ontario Energy and Property Tax Credit.

[3] Beer and Wine Tax replaces reduced Beer and Wine Fees and the reduced sales tax on alcohol. There is no net new revenue for the Province.

Note: Numbers may not add due to rounding.

TABLE 8. Total Expense
($ Millions)

Ministry Expense	2008–09	2009–10	Actual 2010–11	Current Outlook 2011–12
Aboriginal Affairs	55	67	71	77.1
Agriculture, Food and Rural Affairs[1]	877	1,265	888	1,244.3
Attorney General	1,749	1,663	1,737	1,907.9
Board of Internal Economy	188	187	194	293.9
Children and Youth Services	3,223	3,588	3,835	3,947.5
Citizenship and Immigration	89	101	106	114.5
Community and Social Services	7,992	8,621	9,148	9,770.0
Community Safety and Correctional Services	2,121	2,201	2,610	2,755.5
Consumer Services	18	17	18	20.4
Economic Development and Trade	245	223	267	343.1
Education[1]	20,471	21,177	21,850	23,212.0
Energy[1]	326	469	700	335.5
Environment[1]	379	375	521	526.1
Executive Offices	35	34	32	32.4
Finance[1]	602	492	496	552.0
Francophone Affairs, Office of	5	5	5	5.5
Government Services[1]	945	1,113	973	1,081.5
Health and Long-Term Care	40,352	42,725	44,085	47,128.5
Health Promotion and Sport[1]	382	385	385	398.4
Infrastructure[2]	(75)	(178)	(246)	(72.7)
Labour	177	179	187	190.8
Municipal Affairs and Housing[1]	725	664	672	608.8
Natural Resources	605	624	676	822.9
Northern Development, Mines and Forestry	645	653	823	846.2
Research and Innovation[1]	295	333	349	369.5
Revenue[1]	635	1,129	900	904.2
Tourism and Culture[1]	566	668	793	900.5
Training, Colleges and Universities[1]	6,081	6,479	6,501	6,998.3
Transportation[1]	2,033	2,092	2,263	2,348.4
Interest on Debt[3]	8,566	8,719	9,480	10,096.9
Other Expense[1]	3,035	8,985	10,350	7,383.2
Year-End Savings[4]	–	–	–	(1,075.0)
Total Expense	**103,342**	**115,055**	**120,669**	**124,068.1**

1 Details on other ministry expense can be found in Table 9, Other Expense.

2 Credit expense amounts are a result of adjustments between the Ministry of Infrastructure and other ministries to reflect consolidated net spending on realty assets for the year.

3 Interest on debt is net of interest capitalized during construction of tangible capital assets of $203 million in 2010–11 and $268 million in 2011–12.

4 As in past years, the Year-End Savings provision reflects anticipated underspending that has historically arisen at year-end due to factors such as program efficiencies and changes in project start-ups and implementation plans.

Notes: Future updates will reflect the impact of recently announced ministry restructuring.
Numbers may not add due to rounding.

TABLE 9. Other Expense
($ Millions)

Ministry Expense	2008–09	2009–10	Actual 2010–11	Current Outlook 2011–12
Agriculture, Food and Rural Affairs				
Time-Limited Investments in Infrastructure	–	618	1,496	293.4
Time-Limited Assistance	13	27	9	–
Education				
Teachers' Pension Plan[1]	50	255	522	526.0
Energy				
Ontario Clean Energy Benefit	–	–	300	1,135.0
Environment				
One-Time Investments	68	37	–	–
Finance				
One-Time Automotive Sector Support[2]	75	3,022	–	–
Ontario Municipal Partnership Fund	905	781	684	623.7
Operating Contingency Fund	–	–	–	359.5
Pension Benefit Guarantee Fund	–	500	–	–
Power Supply Contract Costs	953	1,409	1,288	1,351.0
Government Services				
Pension and Other Employee Future Benefits	971	949	1,182	1,341.0
Health Promotion and Sport				
Time-Limited Investments in Infrastructure	–	48	288	44.2
Time-Limited Investments to Support Pan/Parapan Am Games	–	–	15	28.3
Infrastructure				
Capital Contingency Fund	–	–	–	32.3
Municipal Affairs and Housing				
Time-Limited Investments in Municipal Social and Affordable Housing Stock	–	585	668	58.7
One-Time Assistance	–	–	21	–
Research and Innovation				
One-Time Investments	–	5	–	–
Revenue				
Harmonized Sales Tax Transitional Support	–	–	3,039	1,440.6
Tourism and Culture				
One-Time Investments	–	–	22	3.1
Training, Colleges and Universities				
Time-Limited Investments	–	559	816	146.3
Transportation				
One-Time Transit and Infrastructure Investments	–	190	–	–
Total Other Expense	**3,035**	**8,985**	**10,350**	**7,383.2**

[1] Numbers reflect PSAB pension expense. Ontario's matching contributions to the plan grow from $1,070 million in 2008–09 to $1,381 million in 2011–12.

[2] Reflects the fiscal impact of Ontario's $4.6 billion in support to the automotive industry.

Notes: Future updates will reflect the impact of recently announced ministry restructuring details.
Numbers may not add due to rounding.

TABLE 10. 2011–12 Infrastructure Expenditures
($ Millions)

Sector	Total Infrastructure Expenditures 2010–11 Actual	2011–12 Current Outlook: Investment in Capital Assets[1]	2011–12 Current Outlook: Transfers and Other Infrastructure Expenditures[2]	2011–12 Current Outlook: Total Infrastructure Expenditures
Transportation				
Transit	1,735	2,093	391	2,483
Provincial Highways	1,925	2,114	–	2,114
Other Transportation[3]	769	712	92	804
Health				
Hospitals	2,625	2,620	10	2,630
Other Health	439	120	171	291
Education	1,714	2,092	30	2,121
Postsecondary				
Colleges	344	168	–	168
Universities	105	–	107	107
Water/Environment	245	41	249	290
Municipal and Local Infrastructure	514	134	183	316
Justice	613	851	52	903
Other	583	707	18	725
Short-Term Stimulus Investments	3,598	42	451	493
Subtotal	**15,209**	**11,692**	**1,754**	**13,447**
Less: Other Partner Funding[4]	597	674	–	674
Total Excluding Partner Funding	**14,612**	**11,019**	**1,754**	**12,773**
Less: Flow-Throughs[5]	340	96	578	673
Total Provincial Expenditure[6]	**14,272**	**10,923**	**1,177**	**12,100**

1 Investment in Capital Assets includes interest capitalized during construction of tangible capital assets of $268 million.

2 Mainly consists of transfers for capital purposes to municipalities and universities, and expenditures for capital repairs.

3 Other Transportation includes planning activities, property acquisition, highway service centres and other infrastructure programs (e.g., municipal/ local roads, remote airports).

4 Third-party contributions to capital investment in the consolidated sectors (schools, colleges and hospitals).

5 Mostly federal government transfers for capital investments.

6 Total Provincial Infrastructure Expenditure includes Investment in Capital Assets of $9.8 billion for 2010–11. This includes a one-time adjustment of $0.3 billion for consolidation of a number of agencies. This also includes adjustments for the net book value of assets disposed of during the year, as well as changes in valuation.

Note: Numbers may not add due to rounding.

TABLE 11. Ten-Year Review of Selected Financial and Economic Statistics[1]

($ Millions)

	2002–03[2]	2003–04	2004–05
Financial Transactions			
Revenue	**74,675**	**74,269**	**83,861**
Expense			
Programs	64,864	70,148	76,048
Interest on Debt[4]	9,694	9,604	9,368
Total Expense	**74,558**	**79,752**	**85,416**
Reserve	–	–	–
Surplus/(Deficit)	**117**	**(5,483)**	**(1,555)**
Net Debt[5]	132,647	138,816	140,921
Accumulated Deficit	118,705	124,188	125,743
Gross Domestic Product (GDP) at Market Prices	477,763	493,081	516,106
Personal Income	369,420	381,127	400,994
Population — July (000s)	12,091	12,242	12,391
Net Debt per Capita (dollars)	10,971	11,339	11,373
Personal Income per Capita (dollars)	30,553	31,133	32,362
Interest on Debt as a per cent of Revenue	13.0	12.9	11.2
Net Debt as a per cent of GDP	27.8	28.2	27.3
Accumulated Deficit as a per cent of GDP	24.8	25.2	24.4

[1] Revenue and expense have been restated to reflect a fiscally neutral accounting change for the revised presentation of education property taxes, as described in the *2010 Ontario Budget*.

[2] Starting in 2002–03, investments in major tangible capital assets owned by the Province (land, buildings and transportation infrastructure) have been capitalized and amortized to expense over their useful lives. Starting in 2009–10, investments in minor tangible capital assets owned by the Province were capitalized and amortized to expense. All capital assets owned by consolidated organizations are being accounted for in a similar manner.

[3] Starting in 2005–06, the Province's financial reporting was expanded to include hospitals, school boards and colleges. Total expense prior to 2005–06 has not been restated to reflect expanded reporting.

[4] Interest on Debt is net of interest capitalized during construction of tangible capital assets of $148 million in 2009–10, $203 million in 2010–11 and $268 million in 2011–12.

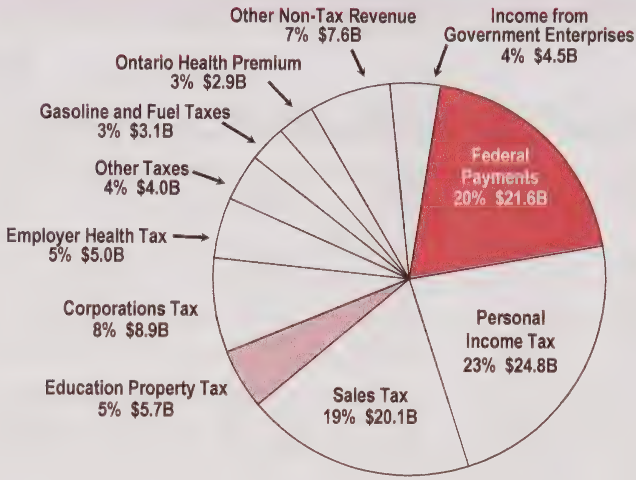
[5] Starting in 2009–10, Net Debt includes the net debt of hospitals, school boards and colleges consistent with Public Sector Accounting Board standards. For comparative purposes, Net Debt has been restated from 2005–06 to 2008–09 to conform with this revised presentation. Net Debt has also been restated from 2003–04 to 2005–06 to reflect the value of hydro corridor lands transferred to the Province from Hydro One Inc.

Sources: Ontario Ministry of Finance and Statistics Canada.

2005–06[3]	2006–07	2007–08	2008–09	2009–10[2]	Actual 2010–11	Current Outlook 2011–12
90,305	**96,640**	**103,579**	**96,933**	**95,793**	**106,658**	**108,275**
80,988	85,540	94,065	94,776	106,336	111,189	113,971
9,019	8,831	8,914	8,566	8,719	9,480	10,097
90,007	**94,371**	**102,979**	**103,342**	**115,055**	**120,669**	**124,068**
–	–	–	–	–	–	200
298	**2,269**	**600**	**(6,409)**	**(19,262)**	**(14,011)**	**(15,994)**
152,702	153,742	156,616	169,585	193,589	214,511	238,368
109,155	106,776	105,617	113,238	130,957	144,573	160,567
537,383	560,576	583,946	587,055	581,635	612,494	636,996
419,457	442,736	466,051	479,217	480,061	500,048	516,550
12,528	12,665	12,793	12,934	13,073	13,228	13,373
12,189	12,139	12,242	13,112	14,808	16,216	17,825
33,482	34,957	36,430	37,051	36,722	37,802	38,626
10.0	9.1	8.6	8.8	9.1	8.9	9.3
28.4	27.4	26.8	28.9	33.3	35.0	37.4
20.3	19.0	18.1	19.3	22.5	23.6	25.2

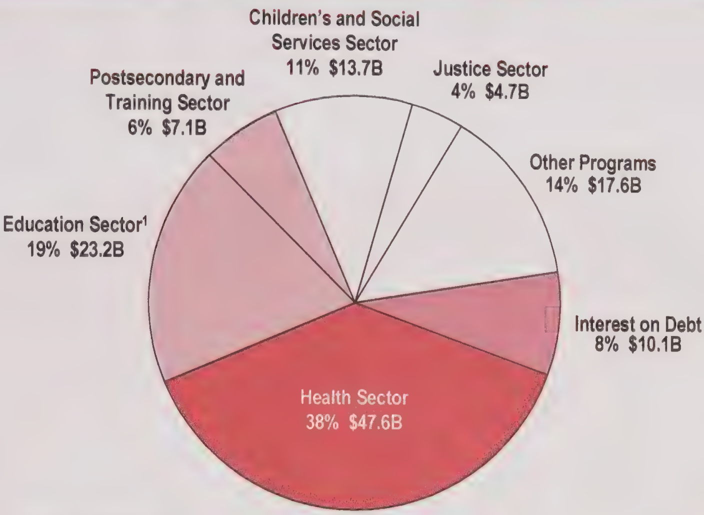
Note: Revenue and expense from the *2011 Budget* and *First Quarter Ontario Finances* have both increased by identical amounts ($0.3 billion) from the original presentation to reflect a fiscally neutral reclassification of three government agencies (Algonquin Forestry Authority, Niagara Parks Commission and Ontario Clean Water Agency) from government business enterprises to other government organizations since they no longer meet the criteria for classification as government business enterprises. As well, three other government organizations (Forestry Renewal Trust, Ontario Arts Council and Ottawa Convention Centre) have recently crossed the threshold for consolidation. Although the consolidation of these organizations resulted in a one-time increase to revenue in the *2010–11 Public Accounts* ($0.2 billion), these changes are not expected to impact the Province's annual forecasted surplus/deficit.

CHART 4. **Composition of Revenue, 2011–12**



Note: Numbers may not add due to rounding.

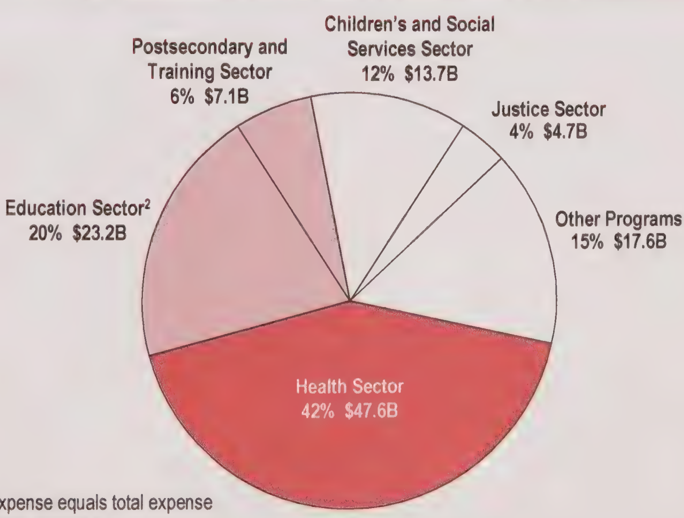
CHART 5. Composition of Total Expense, 2011–12



[1] Excludes Teachers' Pension Plan.

Note: Numbers may not add due to rounding.

CHART 6. Composition of Program Expense[1], 2011–12



[1] Program expense equals total expense minus interest on debt.

[2] Excludes Teachers' Pension Plan.

Note: Numbers may not add due to rounding.

CHAPTER IV

BORROWING AND DEBT MANAGEMENT

Highlights

- ☑ The total long-term public borrowing requirement over the forecast period has been reduced by $3.6 billion compared to the *2011 Budget*, primarily because of the lower deficit recorded in the *2010–11 Public Accounts* and the lower projected deficit in 2011–12.
- ☑ Long-term public borrowing for 2011–12 will remain at the *Budget* forecast of $35 billion to smooth the borrowing program over the next three years while taking advantage of historically low interest rates and robust demand for Ontario long-term debt.
- ☑ Interest on debt (IOD) expense in 2011–12, at $10,097 million, is $193 million less than forecast in the *2011 Budget*. This reduction in IOD primarily reflects the impact of lower interest rates and the lower deficit in 2010–11.
- ☑ Total debt is projected to be $257.3 billion as at March 31, 2012.
- ☑ Net debt is projected to be $238.4 billion as at March 31, 2012.

Long-Term Public Borrowing

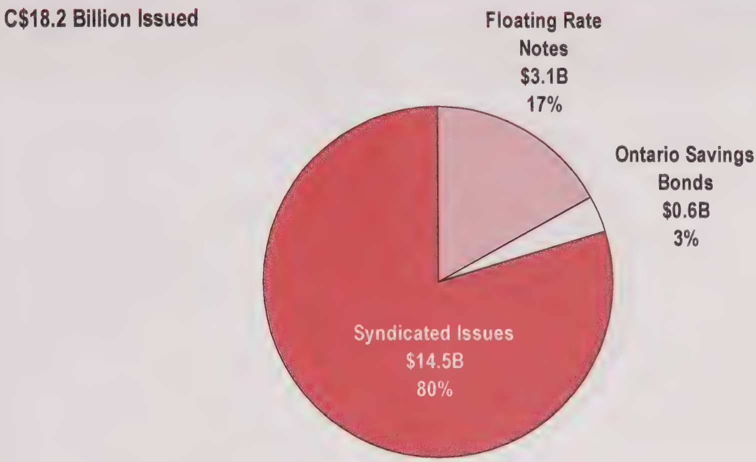
The forecast long-term public borrowing requirement for 2011–12 is $35.0 billion. As at November 15, 2011, $24.3 billion, or 70 per cent, of the long-term borrowing requirement was completed. This figure includes Ontario Savings Bond sales of $0.6 billion.

The Province has been able to continue to extend the term to maturity of its debt while locking in interest rates below the forecast used in the *2011 Budget*. The weighted-average term to maturity of long-term provincial debt issued so far in 2011–12 is 11.6 years, compared to 12.8 years for 2010–11 and 8.1 years for 2009–10. This term to maturity extension reduces refinancing risks and helps offset the impact of expected higher interest rates in future years on the Province's interest on debt (IOD) costs.

The IOD expense in 2011–12, at $10,097 million, is $193 million less than forecast in the *2011 Budget*. This reduction in IOD primarily reflects the impact of lower interest rates and the lower deficit in 2010–11.

So far this year, Ontario has issued $18.2 billion (almost 75 per cent) in the Canadian dollar market, well above the 60 per cent target set out in the *2011 Budget*. The Province now expects to end the year with more than 70 per cent of its borrowing in this market.

CHART 1. 2011–12 Borrowing — Canadian Dollar Market

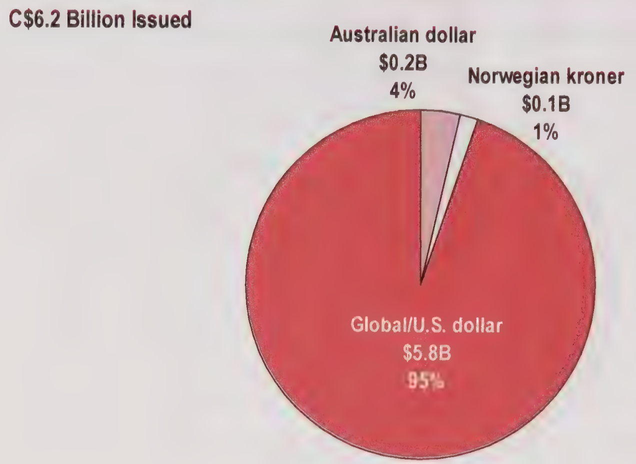


Source: Ontario Financing Authority.

Canadian dollar borrowing has been completed through a number of instruments:

- syndicated issues
- floating rate notes
- Ontario Savings Bonds.

CHART 2. **2011–12 Borrowing — International Markets**



Note: Numbers may not add due to rounding.
Source: Ontario Financing Authority.

International markets have remained an important source of funding for Ontario this year. About $6.2 billion, or over 25 per cent, of borrowing has been completed in foreign currencies:

- three Global bonds in U.S. dollars
- two Euro Medium-Term Notes (EMTNs) in Norwegian kroner
- a Kangaroo bond in Australian dollars.

TABLE 1. **2011–12 Borrowing Program: Province and Ontario Electricity Financial Corporation (OEFC)**

($ Billions)

	Budget Plan	Current Outlook	In-Year Change
Deficit	16.3	16.0	(0.3)
Investment in Capital Assets	10.9	10.9	–
Non-Cash Adjustments	(3.6)	(3.6)	–
Net Loans/Investments	2.7	2.4	(0.3)
Debt Maturities	13.9	13.9	–
Debt Redemptions	0.5	0.3	(0.2)
Total Funding Requirement	**40.7**	**40.0**	**(0.7)**
Canada Pension Plan Borrowing	(1.1)	(1.1)	–
Decrease/(Increase) in Short-Term Borrowing	–	0.7	0.7
Increase/(Decrease) in Cash and Cash Equivalents	(4.6)	(7.8)	(3.2)
Provision for Debt Buy-Backs	–	3.2	3.2
Total Long-Term Public Borrowing	**35.0**	**35.0**	–

Note: Numbers may not add due to rounding.

The lower deficit in 2010–11 resulted in the Province beginning 2011–12 with higher cash reserves than forecast at the time of the *2011 Budget*. Still, long-term public borrowing will remain at the *Budget* forecast of $35 billion this fiscal year. This will allow the Province to smooth the borrowing program over the next three years, while taking advantage of historically low interest rates and robust demand for Ontario long-term debt.

The Province plans to buy back debt maturing over the next two fiscal years, as reflected in a new line in Tables 1 and 2, "Provision for Debt Buy-Backs," if the opportunity arises. These debt buy-backs would result in the Province reducing Cash and Cash Equivalents by $3.2 billion more than forecast at the time of the *Budget*, while still ending fiscal 2011–12 with the same level of cash reserves as was targeted in the *Budget*.

TABLE 2. **Medium-Term Borrowing Outlook: Province and Ontario Electricity Financial Corporation (OEFC)**

($ Billions)

	2011–12	2012–13	2013–14
Deficit	16.0	15.2	13.3
Investment in Capital Assets	10.9	11.5	10.5
Non-Cash Adjustments	(3.6)	(3.4)	(3.9)
Net Loans/Investments	2.4	1.2	1.0
Debt Maturities	13.9	17.3	23.8
Debt Redemptions	0.3	0.3	0.3
Total Funding Requirement	**40.0**	**42.1**	**45.1**
Canada Pension Plan Borrowing	(1.1)	(0.8)	–
Decrease/(Increase) in Short-Term Borrowing	0.7	(3.0)	(3.0)
Increase/(Decrease) in Cash and Cash Equivalents	(7.8)	–	–
Provision for Debt Buy-Backs	3.2	(1.2)	(2.0)
Total Long-Term Public Borrowing	**35.0**	**37.2**	**40.0**

Note: Numbers may not add due to rounding.

The total long-term public borrowing requirement over the forecast period has been reduced by $3.6 billion compared to the *2011 Budget*, primarily because of the lower deficit recorded in the *2010–11 Public Accounts* and the lower projected deficit in 2011–12.

The availability of debt to buy back at fair prices with the appropriate accounting treatment will determine whether the Province proceeds with the planned debt buy-backs. If it is not cost effective to buy back debt, the Province will finish the year with higher cash reserves than targeted in the *Budget*. Either buying back debt, or retaining higher cash reserves, will have the same impact of decreasing the Province's net debt from the *Budget* forecast.

Debt

Total debt, which represents all borrowing without offsetting financial assets, is projected to be $257.3 billion as at March 31, 2012, compared to $236.6 billion as at March 31, 2011.

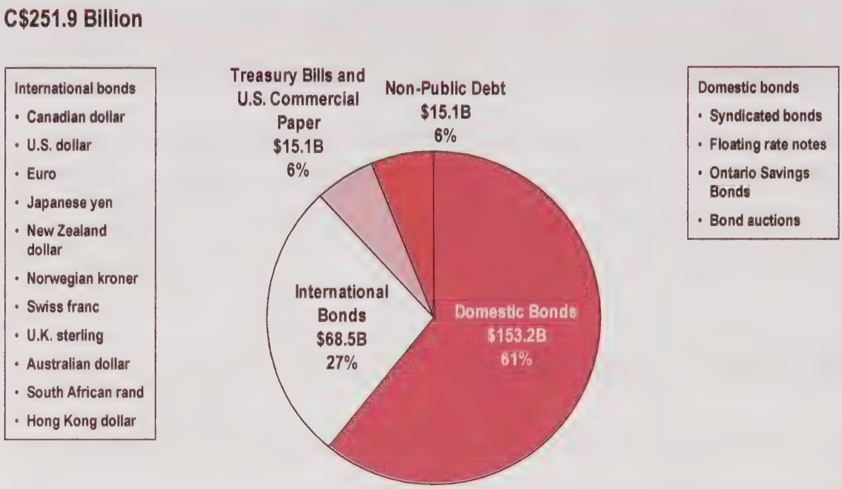
Ontario's net debt is the difference between total liabilities and total financial assets. It is projected to be $238.4 billion as at March 31, 2012, compared to $241.5 billion forecast in the *2011 Budget*. Net debt was $214.5 billion as at March 31, 2011.

Total Debt Composition

Total debt is composed of bonds issued in both the short- and long-term public capital markets and non-public debt.

Ontario had total debt of $251.9 billion as at September 30, 2011. Public debt totalled $236.8 billion, primarily consisting of bonds issued in the long-term markets in Canadian dollars, and internationally in U.S. dollars and nine other currencies. The Province also had $15.1 billion outstanding in non-public debt issued in Canadian dollars. Non-public debt mainly consists of debt instruments issued to public-sector pension funds in Ontario and the Canada Pension Plan Investment Board. This debt is not marketable and cannot be traded.

CHART 3. **Total Debt Composition as at September 30, 2011**

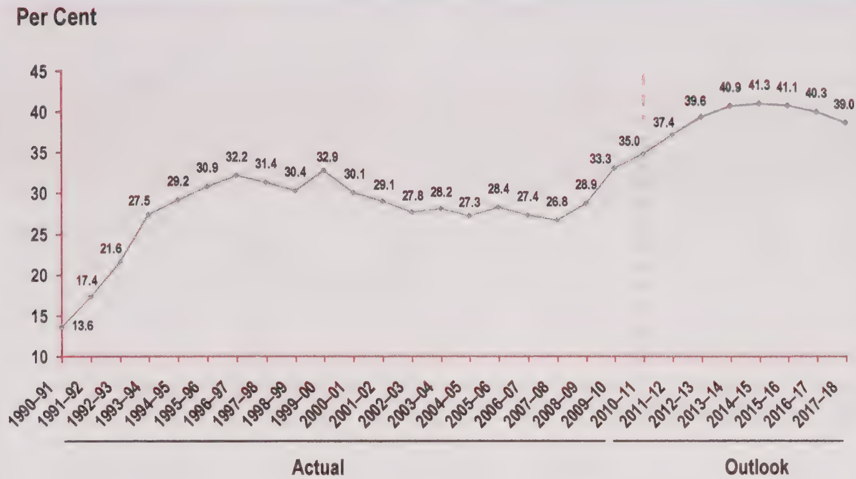


Source: Ontario Financing Authority.

Debt-to-GDP Ratios

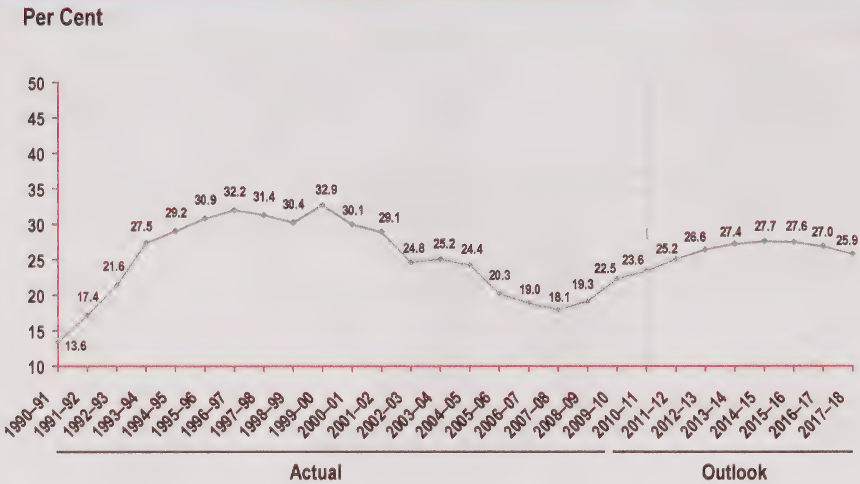
The Province's debt-to-GDP ratios are expected to increase due to the projected deficits. The ratios will stabilize and begin to decline as the deficit is eliminated.

CHART 4. **Net Debt-to-GDP**



Net Debt has been restated to include Broader Public Sector Net Debt, starting in 2005–06.
Source: Ontario Ministry of Finance.

CHART 5. Accumulated Deficit-to-GDP

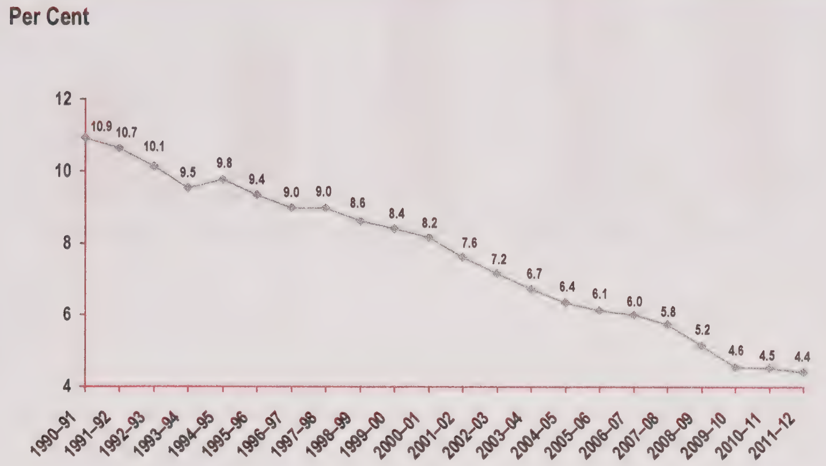


Source: Ontario Ministry of Finance.

Cost of Debt

The effective interest rate (on a weighted-average basis) on total debt was 4.43 per cent as at September 30, 2011 (March 31, 2011, 4.54 per cent).

CHART 6. **Effective Interest Rate (Weighted Average) on Total Debt**



Sources: Ontario Public Accounts (1991–2011) and Ontario Financing Authority.

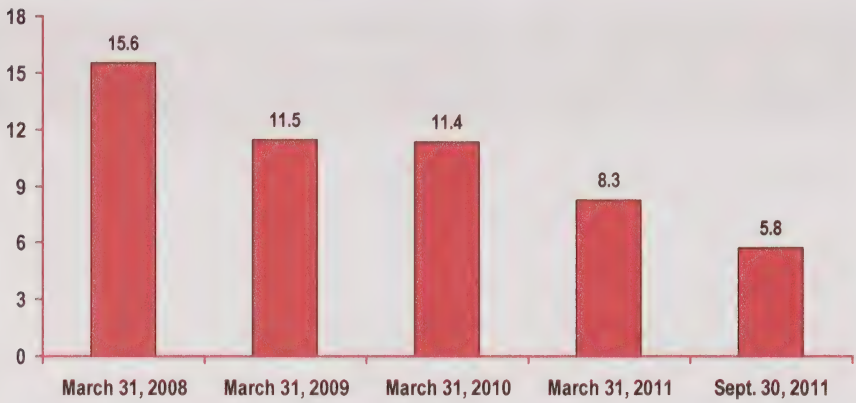
Risk Exposure

The Province limits itself to a maximum net interest rate resetting exposure of 35 per cent of debt issued for Provincial purposes and a maximum foreign exchange exposure of five per cent of debt issued for Provincial purposes. As at September 30, 2011, the net interest rate resetting exposure was 5.8 per cent and foreign exchange exposure was 1.1 per cent.

All exposures have remained well below policy limits in 2011–12.

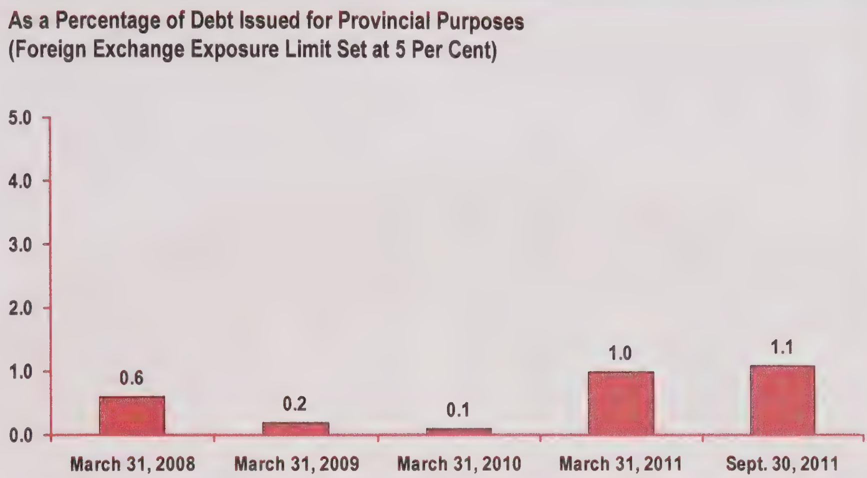
CHART 7. **Net Interest Rate Resetting Exposure**

As a Percentage of Debt Issued for Provincial Purposes (Interest Rate Exposure Limit Set at 35 Per Cent)



Excludes OEFC debt.
Source: Ontario Financing Authority.

CHART 8. Foreign Exchange Exposure



Excludes OEFC debt.
Source: Ontario Financing Authority.

CHAPTER V

TAXATION AND PENSIONS

Highlights

☑ Ontario's Tax Plan for Jobs and Growth is providing $12 billion in tax relief for people and more than $4.8 billion in business tax relief over three years, beginning in 2010–11.

☑ The proposed Healthy Homes Renovation Tax Credit would allow seniors or family members who are sharing a home with a senior to claim a refundable tax credit for permanent modifications that improve accessibility or help a senior be more functional or mobile at home.

Creating Jobs and Helping Ontarians

Ontario's Tax Plan for Jobs and Growth, announced in 2009, provides Ontario with a strong foundation to help manage global economic uncertainty. Tax relief measures for people and businesses are helping to make Ontario's tax system fairer and more competitive.

Tax Relief for People

- A permanent cut to Personal Income Tax (PIT) for 93 per cent of income tax payers, including elimination of Ontario PIT for about 90,000 lower-income taxpayers.
- Permanent refundable credits providing a total of $2.4 billion in annual assistance to millions of low- to moderate-income people:
  - Ontario Sales Tax Credit — for 2011, people can get up to $265 in sales tax relief for each adult and child in a family.
  - Ontario Energy and Property Tax Credit — for 2011, single people and families can get up to $917 in relief for the sales tax on energy and for property taxes. Seniors can get up to $1,044.
  - Northern Ontario Energy Credit — for 2011, residents of northern Ontario can get up to $132 for a single person or up to $204 for a family to help with the higher energy costs they face.
  - These credits are paid in four instalments. Beginning in July 2012, these credits will be combined and delivered on a monthly basis as the Ontario Trillium Benefit.
- The Ontario Senior Homeowners' Property Tax Grant, introduced in 2009, is providing grants of up to $500 a year to help low- to moderate-income senior homeowners pay their property taxes. Over five years, the grant is expected to provide about $1 billion in property tax relief to over 600,000 seniors.
- Children's Activity Tax Credit — for 2011, parents who have children enrolled in extracurricular activities can get up to $51 for each child under age 16. They can receive up to $102 for each child with a disability who is under age 18. This credit is expected to provide about $75 million in assistance to Ontario families each year.

Healthy Homes Renovation Tax Credit

The government is proposing a new Healthy Homes Renovation Tax Credit. If passed, this tax credit could stimulate economic growth through home renovation activity, and would also support around 10,500 jobs throughout the Ontario economy annually. Helping seniors stay in their homes, or in their families' homes, frees up health resources for patients occupying costly beds in hospitals but who could be best cared for in a long-term care home.

Effective October 1, 2011, senior homeowners and tenants, and people who share a home with a senior relative, would be allowed to claim a refundable tax credit of up to $1,500 for expenses related to permanent modifications to the home.

Expenses would be eligible only to the extent that they improve accessibility or help a senior be more functional or mobile at home.

Expenses would not be eligible if their primary purpose is to increase the value of a home (for example, repairs to a roof, redecorating, new windows, new flooring, landscaping, general plumbing or electrical repairs, heating/air conditioning systems or insulation).

Expenses that would be eligible are illustrated by the list below.

To claim the tax credit, seniors or their family members would have to get receipts from suppliers and contractors, helping to ensure that these amounts are reported by vendors for tax purposes.

The credit would be calculated as 15 per cent of up to $10,000 in total eligible expenses for a senior's principal residence in Ontario for a calendar year, for a maximum credit of $1,500 each year. The credit would be claimed on the Personal Income Tax return.

For the 2012 tax year only, the $10,000 maximum would apply to expenses paid or payable from October 1, 2011 to December 31, 2012.

Examples of Eligible Expenses*

- Certain renovations to permit first-floor occupancy or secondary suites ("granny flats" or "in-law suites")
- Grab bars and related reinforcements around the toilet, bathtub and shower
- Hand rails in corridors
- Wheelchair ramps, stair/wheelchair lifts and elevators
- Bath lifts, walk-in bathtubs and wheel-in showers
- Widening passage doors
- Lowering existing counters/cupboards or installing adjustable counters/cupboards
- Light switches and electrical outlets placed in accessible locations
- Door locks that are easy to operate
- Lever handles on doors and taps instead of knobs
- Pull-out shelves under counter to enable work from a seated position
- Non-slip bathroom flooring
- A hand-held shower on adjustable rod or high-low mounting brackets
- Additional light fixtures throughout the home and exterior entrances
- Swing-clear hinges on doors to widen doorways
- Creation of knee space under the basin to enable use from a seated position (and insulation of any hot-water pipes)
- Relocation of tap to front or side of a sink for easier access
- Hands-free taps
- Motion-activated lighting
- Touch-and-release drawers and cupboards and drawers that pull out fully
- Modular or removable versions of a permanent fixture, such as modular ramps and non-fixed bath lifts

* Rules for eligibility would be set out in legislation. This list is not complete.

The tax credit is projected to cost the Province $60 million in 2011–12, which would be offset by savings in business support programs and tax-related expenditures.

Tax Relief for Businesses

Ontario's Tax Plan for Jobs and Growth supports job creation and economic growth.

Tax Competitiveness

Ontario will reduce the general statutory Corporate Income Tax (CIT) rate to 10 per cent in 2013.

- The general CIT rate was reduced to 11.5 per cent effective July 1, 2011 and will be further reduced to 11 per cent on July 1, 2012 and to 10 per cent on July 1, 2013.
- The CIT rate on income from manufacturing and processing, mining, logging, farming and fishing has been reduced to 10 per cent.
- The small business CIT rate has been reduced to 4.5 per cent.
- The small business deduction surtax has been eliminated.
- The Corporate Minimum Tax (CMT) rate has been reduced to 2.7 per cent and more small and medium-sized business have been exempted from the CMT.

The CIT rate reductions, along with other measures described below, will increase Ontario's competitiveness within Canada, with the province's largest trading partner, the United States, and with other jurisdictions around the world. In 2009, prior to the plan, Ontario's general statutory CIT rate of 14 per cent was the second-highest provincial CIT rate in Canada. When Ontario's general CIT rate reaches 10 per cent in 2013, it will be among the lowest provincial rates in the country. Ontario's tax advantage over the average combined federal–state rate in the United States will widen from just over six percentage points in 2009 to over 14 percentage points when the CIT rate reductions are fully implemented. Ontario's CIT rate reductions will put Ontario in line with the average CIT rate of Organisation for Economic Co-operation and Development (OECD) member countries.

In addition to the CIT rate reductions in the Tax Plan, the Province has:

- introduced the Harmonized Sales Tax (HST), which, when fully implemented, removes about $4.5 billion of embedded sales tax paid by business each year, allowing businesses to lower prices;
- eliminated the Capital Tax on July 1, 2010, providing more than $1.6 billion of tax relief annually;
- moved to a single HST administration and a single corporate tax administration, providing compliance cost savings to business of more than $635 million per year; and
- reduced Business Education Tax (BET) rates, saving businesses $540 million per year when fully implemented in 2014.

Strengthening Accountability and Transparency of Tax Expenditures

Public Sector Accounting Standard for Tax Revenue Reporting

The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants published a standard for tax revenue after consultation with federal, provincial and territorial governments.

The PSAB standard for tax revenue distinguishes between tax expenditures that provide:

- relief to taxpayers of taxes paid or owing to the government (i.e., tax concessions), such as non-refundable tax credits; and
- financial benefits regardless of whether a recipient has paid or owes taxes, such as certain refundable tax credits.

Tax concessions would be netted against related tax revenue. Transfers made through a tax system would be reported as expenses, and appropriations approved by the legislature would be required.

As part of its continuing efforts to strengthen financial management, transparency and accountability for the spending of taxpayer dollars, the government will adopt the PSAB standard for tax revenue and begin to treat transfers made through the tax system as expenses.

Reviewing Business Tax Expenditures

Ontario's tax plan has significantly enhanced tax competitiveness for businesses. Ontario will review business tax expenditures for effectiveness and administrative efficiency.

Since 2005, the Ontario government has been reporting tax expenditures as part of its fall economic updates. The *Fiscal Transparency and Accountability Act, 2004*, stipulates that the mid-year review of the fiscal plan must include information about the estimated cost of expenditures made through the tax system. The *Transparency in Taxation, 2011* report, which provides the most current estimates of revenue forgone with respect to tax expenditures, can be found at: www.fin.gov.on.ca/en/budget/fallstatement/2011/transparency.html

Strengthening the Integrity of the Tax System

Ontario's ability to maintain a competitive tax system depends on the integrity and overall fairness of its business tax base. Ontario will continue to work with the federal government and other provinces to address tax loopholes and aggressive tax planning.

In addition, Ontario is calling on the federal government to strengthen the integrity of the corporate tax system by ensuring that tax losses are applied in a fair and reasonable manner and do not distort the principles of inter-provincial income allocation. Ontario continues to support the federal government's review of corporate group taxation in Canada. As stated in the *2011 Ontario Budget*, "Provincial governments have responsibility for key programs such as health and education, and are entitled to tax the economic activity taking place within their jurisdictions. The focus of any changes should be to increase the efficiency and competitiveness of the Canadian corporate tax system and ensure that provinces receive the revenues to which they are entitled."

Federal Support for Research and Development

The federally appointed panel leading the Review of Federal Support for Research and Development (R&D) submitted its final report to the federal government in October 2011. The report makes a series of recommendations relating to federal direct spending and the Scientific Research and Experimental Development (SR&ED) tax incentive program.

Ontario shares the federal government's interest in enhancing business innovation and welcomes efforts to improve the effectiveness and administration of federal programs. Ontario parallels the base of the federal SR&ED tax incentives and will be reviewing any federal changes that would impact R&D tax support for businesses in Ontario.

Ontario's innovative businesses benefit from federal direct spending and the SR&ED tax incentive program. Any changes to federal R&D assistance should focus on greater effectiveness and fairness and should be done in consultation with the provinces.

Securing Our Retirement Future

Ontario is modernizing its pension legislation and actively representing Ontarians in national discussions about improving Canada's retirement income system. This comprehensive approach includes:

- reforming Ontario's employment pension system while balancing the interests of active pension plan members, pensioners and plan sponsors;
- protecting members and pensioners by responding to the effects of economic uncertainty on pensions;
- further enhancing the sustainability of the Pension Benefits Guarantee Fund; and
- strengthening Canada's retirement income system by supporting a modest, phased-in, fully funded enhancement to the Canada Pension Plan (CPP) as well as innovative ideas to improve employment pension coverage in a cost-effective manner.

In 2010, the Ontario legislature unanimously approved the *Pension Benefits Amendment Act, 2010* and the *Securing Pension Benefits Now and for the Future Act, 2010*. These two bills marked the most significant reform of the *Pension Benefits Act* in more than 20 years. The government is now working on the regulatory amendments required to implement many of these new provisions and other proposed amendments announced by the minister.

Since the release of the Province's discussion paper, "Securing Our Retirement Future: Consulting with Ontarians on Canada's Retirement Income System" in October 2010, the government has received over 1,000 responses from business, labour groups and individual stakeholders. In the paper, CPP expansion and Pooled Registered Pension Plans (PRPPs) are presented as options for improving retirement income security for Ontarians. The government is working with its federal, provincial and territorial partners to assess approaches to CPP expansion and consider the framework for PRPPs.

CHAPTER VI

HOW TO PARTICIPATE IN THE 2012 PRE-BUDGET CONSULTATIONS

How to Participate in the 2012 Pre-Budget Consultations

The Minister of Finance will be hosting pre-budget consultations with people, organizations, associations and other stakeholders as part of the McGuinty government's ongoing dialogue with the citizens of Ontario.

Through the use of modern technology, including virtual town halls, the Minister of Finance will reach a broader audience in communities throughout the province.

In particular, the Minister of Finance is interested in hearing Ontarians' views regarding what more the government can do to create jobs and improve services for people, while eliminating the deficit.

Below is information on how you can share your views and ideas for the upcoming *2012 Ontario Budget*.

Written Submissions

Individuals and organizations can mail, email or fax submissions directly to the Minister of Finance.

Mailing Address

The Honourable Dwight Duncan
Minister of Finance
c/o Budget Secretariat
Frost Building North, 3rd Floor
95 Grosvenor Street
Toronto, ON M7A 1Z1

Email Address

submissions@ontario.ca

Fax

416-325-0969

Online Submissions

Individuals can also submit ideas for the *2012 Budget* by completing a form on the Ministry of Finance website at www.fin.gov.on.ca. Click on the "Pre-Budget Consultations" item in the Ontario's Fiscal Cycle menu.

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ISSN 1483-5967 (PRINT) | ISSN 1496-2829 (PDF/HTML)

Ontario

ONTARIO ECONOMIC OUTLOOK AND FISCAL REVIEW

2012
BACKGROUND PAPERS

Honourable **DWIGHT DUNCAN**
Minister of Finance

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For general inquiries regarding the *2012 Ontario Economic Outlook and Fiscal Review, Background Papers*, please call:

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ISSN 1483-5967 (Print)
ISSN 1496-2829 (PDF/HTML)

Ce document est disponible en français sous le titre :
Perspectives économiques et revue financière de l'Ontario de 2012, Documents d'information

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Foreword

Ontario is not immune to a changing global economy and the uncertainty that comes with change. Many Ontario families are still feeling the effects of the worldwide recession.

Before the recession, Ontarians rebuilt their public services, after years of neglect, by working together. When the recession hit, the Province invested in short-term economic stimulus to protect and create jobs and to protect public services: education, health care and modern infrastructure.

The McGuinty government's economic plan has confronted the challenges facing Ontario leading up to and through the global recession. The plan is also making smart investments that create jobs and protect the gains Ontario has made in public services.

The plan is working.

Economic and Job Growth

Ontario's economy is growing steadily — but modestly. Since the end of the recession in the second quarter of 2009, Ontario is experiencing both economic and job growth. The province's real gross domestic product (GDP) has increased by 8.1 per cent while over 350,000 net new jobs have been created.

The Tax Plan for Jobs and Growth, including the Harmonized Sales Tax (HST), has made Ontario one of the most attractive places in North America for businesses to invest. Business investment in machinery and equipment, which increased 18.7 per cent in 2011, is a key driver of Ontario's economic growth.

Despite making progress, Ontario is in a period of restrained growth. Moderate economic growth is expected to continue over the next three years. The provincial economy is projected to grow by 2.0 per cent in 2012, 1.9 per cent in 2013, 2.3 per cent in 2014 and 2.4 per cent in 2015.

Managing Spending

In order to meet the Province's fiscal targets, the McGuinty government is managing spending prudently. Ontario has been working hard to follow a plan to reduce growth in spending. Last year, growth in program spending was less than one per cent — the second lowest rate of growth in Ontario in a decade.

The *2012 Budget* included four dollars in savings and cost-containment measures for each additional dollar in proposed new revenue measures, including nearly $18 billion in savings and cost avoidance over three years.

The plan is working, yet there is more work still to do.

Protecting Jobs and Public Services

Everyone has a role to play in helping Ontario eliminate the deficit. That is why the McGuinty government is taking strong action to restrain compensation costs in the public and broader public sectors to ensure it continues to meet fiscal targets and protect jobs and public services.

Over the past nine years, the Ontario government has provided fair pay and benefit increases to public-sector workers because the work they do for Ontario families is highly valued.

More than half of what government spends — over $55 billion — goes to wages and benefits for employees in the broader public sector. Ontario is facing a clear choice: restrain wages, or lay off thousands of hard-working Ontarians — people who provide the public services relied on by Ontario families.

The McGuinty government respects the collective bargaining process. In order to meet its deficit elimination targets, Ontario is not providing funding for incremental compensation increases for new collective agreements. The government is committed to consultation and negotiation with its partners across the broader public sector. With the *Putting Students First Act, 2012*, Ontario is protecting 20,000 jobs in education and would support savings to taxpayers of $2 billion over two years.

In September 2012, the government shared proposed draft legislation, which outlines the government's balanced approach to restraining broader public sector wages. The proposed Protecting Jobs and Public Services Act would help ensure future collective agreements protect jobs and public services and would also help eliminate the deficit. The draft legislation would continue to respect the collective bargaining process through a framework that protects jobs and public services while managing costs. The proposed draft legislation would protect the jobs of 55,000 Ontarians and avoid increased spending in the broader public sector of $2.8 billion over three years.

Other places are facing the same challenges as Ontario and are responding differently — without fairness and without balance. California has laid off more than 126,000 public-sector workers. In Michigan, 35,000 public-sector workers have lost their jobs. In Ottawa, the federal government is eliminating about 20,000 jobs in its civil service over the next three years. These cuts affect livelihoods, public services and the families that receive them. Given the choice between protecting jobs and public services or cutting jobs — which would mean fewer services — the McGuinty government will choose protecting jobs and public services.

Eliminating the Deficit

The plan to eliminate the deficit is working. For the fourth year in a row, Ontario is ahead of its targets in lowering the deficit. The Province's deficit for 2012–13 is projected to be $14.4 billion, an improvement of $0.4 billion from the *2012 Budget* forecast.

Conclusion

Ontario is a strong province with a proud tradition of economic and job growth. Throughout its history, Ontarians have worked together to build a bright future. Through strong, determined action, Ontario is doing that again.

The McGuinty government eliminated the hidden deficit it inherited from the previous government and then balanced three budgets in a row. It protected and created jobs when the global recession hit Ontario. For the fourth year in a row, it is ahead of plan in lowering the deficit.

Eliminating the deficit is the single most important step the Province can take to grow the economy and create jobs. A strong economy is the means to continue delivering the best education and health care in the world.

Chapter I

Protecting Jobs and Public Services

Highlights

Section A: Jobs and the Economy

- ☑ Ontario's plan to eliminate the deficit is working, on track and achieving results.
- ☑ Ontario is keeping the cost of postsecondary education affordable through the 30% Off Ontario Tuition grant and has introduced a streamlined application process for over 300,000 Ontario Student Assistance Program (OSAP) applicants and recipients.
- ☑ Since 2003, Ontario has invested about $75 billion in long-overdue improvements to its schools, hospitals, highways and transit systems. These investments have created or preserved close to 100,000 jobs on average each year.
- ☑ Ontario's tax system is one of the most competitive in the industrialized world for new business investment with its Harmonized Sales Tax, reduced Corporate Income Tax rates for large and small businesses, and elimination of the Capital Tax.
- ☑ Since 2003, the province has added over 10,000 megawatts of new and refurbished capacity for a stronger and more reliable supply of electricity.
- ☑ The Industrial Electricity Incentive, a program beginning in January 2013, will reduce electricity costs for new and expanded industrial facilities.
- ☑ As announced in the *2012 Budget*, the Jobs and Prosperity Council will advise the government on a path to sustainable growth and on the development of a Jobs and Prosperity Fund, with a focus on productivity growth.
- ☑ The government launched its first four new teams to drive productivity and reform in the administration of key government programs and services.

- ☑ Ontario is working with First Nation communities, the federal government and Cliffs Natural Resources to develop the largest chromite mine and processing facility in North America.
- ☑ Ontario continues to take significant steps to enhance revenue integrity and tax administration, including provincial oversight of raw leaf tobacco, which came into force on October 1, 2012, as well as working with the federal government to address situations where corporations use tax planning techniques to avoid paying their fair share of Ontario's taxes.
- ☑ As a result of the government's 2010 automobile insurance reforms, auto insurance rates have declined by 0.28 per cent in the first three quarters of this year.
- ☑ An important area of continuing focus is tackling fraudulent and abusive practices in auto insurance. In July 2012, the government released a status update from the Auto Insurance Anti-Fraud Task Force; the final report and recommendations from the Task Force are expected later this fall.
- ☑ Ontario's financial services sector employs 370,000 Ontarians and is growing more quickly than employment in the economy. Toronto is one of the top 10 financial centres in the world based on the Global Financial Centres Index.
- ☑ The government is strengthening the securities regulatory framework by encouraging the Ontario Securities Commission to become a more responsive and efficient regulator.

Section B: Public-Sector Compensation

- ☑ The *Putting Students First Act, 2012* will protect full-day kindergarten, keep class sizes at current levels and protect nearly 20,000 education jobs, and would support savings of $2 billion over two years
- ☑ The proposed Protecting Public Services Act would, if passed, restrain compensation for unionized employees of the broader public sector for two years; freeze earnings for two years for managers who are eligible for performance pay; introduce a permanent salary cap for new executives at no more than double the Premier's salary; support avoiding increased spending of $2.8 billion over three years; and help to protect roughly 55,000 public-sector jobs.
- ☑ To ensure that public-sector pension plans are sustainable and affordable for members and Ontarians, the government continues to engage in extensive consultations with relevant plans on freezing contribution rates until the deficit is eliminated.

Section C: Transforming Public Services

- ☑ The government has made significant progress on its plan for transformation to a sustainable health care system that continues to provide high-quality patient care.
- ☑ The government has a record of achieving savings and improving the efficiency of public services. Planned savings measures from the *2011 Budget* and *2012 Budget* are on track.

Section A: Jobs and the Economy

Jobs and the Economy

The Ontario government continues to take strong action for a stronger Ontario. The government has been encouraging economic growth and prosperity by focusing on five key economic fundamentals:

- renewing the focus on eliminating the deficit, while protecting gains in education and health care;
- investing in Ontario's highly skilled, educated and diverse workforce;
- investing in modern, sustainable and efficient public infrastructure;
- creating an internationally competitive tax and regulatory environment; and
- strengthening Ontario's electricity system.

Eliminating the Deficit

Ontario has laid out a plan to eliminate the deficit. The plan is working, on track and achieving results. The results from the *2011–2012 Public Accounts of Ontario* confirmed a $13.0 billion deficit for 2011–12, $3.3 billion ahead of the 2011 Budget Plan and 47 per cent lower than the 2009–10 deficit of $24.7 billion forecast in the fall of 2009. Ontario will continue to hit its fiscal targets while protecting the gains made in education and health care.

Education

Ontario's postsecondary education and training system is fundamental to economic growth and the province's future prosperity. At 64 per cent, the province has one of the highest rates of postsecondary education attainment in the world.

Ontario continues to make significant investments in the education and skills development of Ontarians, ranging from full-day kindergarten to more spaces for graduate students in universities. Ontario is keeping the cost of postsecondary education affordable by continuing to provide the 30% Off Ontario Tuition grant. The government has also introduced OSAP Express, a streamlined application process for over 300,000 Ontario Student Assistance Program (OSAP) applicants and recipients. In addition, the government recently consulted on a postsecondary education discussion paper to solicit ideas on ways to improve learning options, enhance quality and ensure long-term financial sustainability of the sector.

Infrastructure

Another key driver of Ontario's economic growth and long-term prosperity is modern, sustainable and efficient public infrastructure. The government continues to support Ontario's public infrastructure, having already invested about $75 billion since 2003. These investments have created or preserved close to 100,000 jobs on average each year and have made long-overdue improvements to the province's schools, hospitals, highways and transit systems. The government's strong track record of building infrastructure will continue, with investments that are focused and that align with the commitment to eliminate the deficit by 2017–18.

Tax System

The government has also transformed Ontario's tax system into one of the most competitive in the industrialized world for new business investment by moving to the Harmonized Sales Tax, reducing Corporate Income Tax rates for large and small businesses, and eliminating the Capital Tax. It has also eliminated thousands of business regulatory requirements.

Clean Energy

A strengthened and more reliable supply of electricity supports a growing economy. The province has added over 10,000 megawatts (MW) of new and refurbished capacity since 2003. Hydro One Inc. has invested more than $9 billion to improve, expand and replace equipment in its transmission and distribution systems, including upgrades to more than 7,500 kilometres of power lines.

Ontario is on track to phase out coal-fired electricity by 2014. In 2011, more than 80 per cent of the power generated in Ontario came from clean energy sources such as nuclear, water and other renewables. This is helping to improve air quality and protect the health of families. Over 20,000 clean energy jobs have already been created as a result of the government's plan for clean energy and conservation.

Economic Challenges

Ontario is not immune to a changing global economy. Ontario's economy is growing modestly and faces significant challenges due to a difficult global economic setting. Higher oil prices and a strong Canadian dollar have affected the competitiveness of many Ontario firms. Slower growth in U.S., European and Asian markets has also affected business and consumer confidence and trade.

A major challenge facing Ontario's economy is low productivity growth compared to key competitors, including the United States.

Business investment in research and development (R&D) and information and communications technologies (ICT) is a key driver of productivity performance. However, Ontario businesses are underinvesting in both areas relative to businesses in the United States.

Entrepreneurship is another important driver of innovation and productivity. Although entrepreneurs everywhere face a degree of risk, and there is potential for failure, there is some evidence that entrepreneurs in Ontario may encounter additional hurdles and disincentives to growth. These include more restrictive access to early-stage financing and entry into certain regulated industries. Often, many small, innovative firms also lack the necessary business expertise and networks to break into export markets and global supply chains.

Increasing exports can also help boost productivity and the shift to high value-added manufacturing and services. Ontario's exports to the United States have fallen over the past decade, lowering total exports. To help grow and diversify Ontario's exports, it is important to make greater inroads into fast-growing emerging economies, while increasing and building on Ontario's exports to the United States. Premier McGuinty will take part in his fourth trade mission to China in early 2013 to help the economy and create more jobs.

A highly educated and skilled workforce is one of Ontario's key competitive advantages. However, there are challenges that require a coordinated response by governments, employers and educational institutions. For example, although Ontario's youth unemployment rate has declined since the recession, it remains high. As well, compared to international competitors, Canadian employers invest less in training on a per capita basis and Canadian workers have a lower rate of participation in workplace training.

Update on *2012 Budget*

Jobs and Prosperity Council

Spurring strong and sustainable economic growth requires the combined efforts of business, labour and the public sector. That is why the government has brought together these key players into a Jobs and Prosperity Council, announced in the *2012 Budget*. Reporting to the Premier and headed by RBC President and CEO Gordon Nixon, the Council will give the government advice in the next few months on a path to sustainable growth that will also help inform the *2013 Budget*.

The Council will advise the government on the development of a Jobs and Prosperity Fund, with a focus on productivity growth. It will also advise on finding $250 million in savings and a 25 per cent reduction in administrative costs for business support programs.

As part of its report, the Council will explore opportunities in the following areas as well:

- how to build a culture of entrepreneurship and innovation by improving the linkages between corporate leaders and problem solvers such as engineers and scientists in Ontario's universities and colleges;
- how to expand the pool of risk capital that is available to innovative entrepreneurial firms;
- how the government can further reduce the regulatory burden on business;
- how to encourage businesses to expand into faster-growing markets; and
- how to leverage the global contacts and international knowledge that newcomers bring to Ontario, taking into consideration recommendations from Ontario's Expert Roundtable on Immigration.

Productivity Teams

The government launched its first four new teams to drive productivity and reform in the administration of key government programs and services. The productivity teams consist of internal central agency and ministry staff working in partnership with external experts to undertake transformational activities in specific areas of focus. The four productivity teams are focused on work in the following areas:

- Transfer Payment Accountability, led by the Ministry of Children and Youth Services. This project aims to enhance accountability with the ministry's transfer payment agencies through more effective contracting of services. Contracting will be based on a robust accountability framework with defined performance and outcome measures. This will lead to better client outcomes;
- Transformation of Delivering Benefits to People, led by the Ministry of Finance. This project aims to develop a common client identifier for use across Ontario's income-based benefits programs while protecting privacy. It will support the implementation of the "My Benefits Account" to provide simplified one-stop access to multiple income-based benefits and programs and support more efficient program administration and delivery;
- Jobs and Prosperity — Restructure Existing Business Support Programs, led by the Ministry of Economic Development and Innovation. This project aims to provide advice to the government on consolidating and refocusing existing business support programs through the Jobs and Prosperity Council; and
- Information Technology Transformation — Consolidation of Government Network Services Procurement, led by the Ministry of Government Services. This will develop a multi-service provider business model to improve service flexibility of data network services across the Ontario government while enhancing cost effectiveness.

Reporting to the Treasury Board/Management Board of Cabinet, the initial productivity teams are expected to complete their work in the fourth quarter of 2012–13. Additional teams will be established to focus on other priority areas on a year-round basis to support the effective implementation of reform in the public sector.

Northern Ontario and the Ring of Fire

Ontario is a hotbed of mineral development and is benefiting from global demand for resources. Ontario ranks among the top 10 world producers of nickel and platinum. The mining industry in the province is valued at more than $10 billion and it creates over 77,000 direct and indirect jobs in Ontario.

Ontario's Ring of Fire, an area in the Far North with deposits of important minerals, offers a unique economic development opportunity for northern Ontario.

In May 2012, Cliffs Natural Resources Inc., an international mining and natural resources company, announced a $3.3 billion investment including a chromite mine, a transportation corridor and a $1.8 billion ferrochrome processing facility in Capreol, near Sudbury.

The mine and mill development, as well as the construction and operation of transportation infrastructure, will create up to 750 direct jobs, plus hundreds of indirect employment opportunities for northern Ontarians and First Nations communities.

Ontario wants to ensure a strong partnership with First Nations on proposed developments. The Province is working with First Nations and the federal government to discuss environmental monitoring, socioeconomic and community development, regional infrastructure and resource revenue sharing opportunities. The Province has signed and renewed memorandums of understanding or cooperation with First Nations communities, including Marten Falls and Webequie First Nations.

Industrial Electricity Incentive

The Industrial Electricity Incentive is a program that will reduce electricity costs for new and expanded industrial facilities, in exchange for the creation of new jobs and for new business investment in the province. The program will launch in January 2013 and is designed to encourage industrial companies to make use of Ontario's strong energy supply and promote long-term economic development.

Enhancing Revenue Integrity

Ontario is continuing to take significant steps to enhance revenue integrity and tax administration:

- Provincial oversight of raw leaf tobacco came into force on October 1, 2012. A regulated grace period until April 1, 2013, will help facilitate a smooth transition and allow the Province to discuss administrative requirements with stakeholders and First Nations partners. Consultations and discussions will also take place with key stakeholders and First Nations partners regarding potential *Tobacco Tax Act* amendments intended to provide additional enforcement and compliance tools. The Province is also working with First Nations to explore ways to modernize the system for allocating untaxed tobacco products as well as options related to First Nation self-regulation of tobacco on reserve.
- The Province continues to work with the federal government to address the underground economy. In addition, the Province is working with the federal government to address situations where corporations use aggressive tax planning techniques to avoid paying their fair share of Ontario's taxes.
- The Ministry of Finance is also working with other ministries and broader public service entities with respect to compliance audit opportunities, including making greater use of the ministry's risk assessment system and redeploying audit resources to generate additional revenues. Similarly, the ministry is pursuing opportunities with other ministries to collect amounts owed to them on their behalf beginning in 2013–14.

Employment and Training Services Integration

The *2012 Budget* announced measures to further modernize employment and training services, including plans to undertake integration of employment and training services across the government with Employment Ontario. The Ministry of Training, Colleges and Universities is working with a number of ministries to develop options on the best way to implement this initiative.

Service Delivery Efficiencies

The Ministry of Finance is working with municipal partners to improve service delivery and administrative efficiency, and has implemented a shared delivery model for the housing allowance component of the Investment in Affordable Housing for Ontario program. Approximately 4,500 clients will be assisted throughout the duration of the program, which ends in December 2017.

Automobile Insurance

The government's 2010 automobile insurance reforms continue to stabilize premiums for drivers across Ontario. Auto insurance rates declined by 0.28 per cent in the first three quarters of this year. An important area of continuing focus that builds on the government's reforms has been to tackle fraudulent and abusive practices in auto insurance.

In July 2012, the government released a status update from the Auto Insurance Anti-Fraud Task Force. The update sought public comment on potential recommendations and reported on research results. Since then, the Task Force has held extensive consultations. The government looks forward to receiving the final report and recommendations from the Task Force later this fall.

Financial Services

The financial services sector continues to grow and remains a major part of Ontario's economy. The sector directly employs 370,000 Ontarians and is growing more quickly than employment in the economy. Toronto is the financial capital of Canada and, with the help of the government's Open Ontario plan, has become one of the top 10 financial centres in the world based on the Global Financial Centres Index.

Ontario's financial institutions are world class. They withstood the challenges brought on by the global economic crisis, helping Canada gain international recognition. In fact, for five consecutive years, the World Economic Forum has ranked Canada as having the soundest banks in the world.

The financial services sector is vital as it supports capital and investment opportunities in all other sectors of the province's economy.

TABLE 1.1 Top 10 Global Financial Centres

1. London	6. Seoul
2. New York	7. Tokyo
3. Hong Kong	8. Chicago
4. Singapore	9. Geneva
5. Zurich	**10. Toronto**

Z/Yen Group Ltd., Global Financial Centres Index. Annual figures as of September 2012.

The government is strengthening the securities regulatory framework by encouraging the Ontario Securities Commission (OSC) to become a more responsive and efficient regulator. As set out in the *2012 Budget*, the Province has enacted amendments to the *Securities Act* that would allow the OSC to conduct hearings on a timelier basis and play a greater role in educating investors and strengthening financial literacy.

In its 2012 Statement of Priorities, the OSC identified improving access to capital, particularly for startup and small businesses in Ontario, as a key deliverable. It plans to put forward new streamlined regulations designed to make the raising of capital less costly and less time consuming for both new and smaller companies. The Commission is also considering broadening the range of exemptions available to companies wishing to raise capital without incurring the time and expense of undertaking a public offering of securities. In addition, the OSC will be undertaking comparative research on capital-raising regimes in other jurisdictions to identify additional potential initiatives.

In order to have safer, more efficient and more competitive capital markets for all Canadians, Ontario continues to work with the federal and other provincial governments to restructure and improve Canada's securities regulatory framework.

Section B: Public-Sector Compensation

Protecting Jobs and Public Services

The *2012 Budget* laid out a long-term plan for managing public-sector compensation costs — including wages, salaries, benefits and pensions — as a key part of the government's plan to eliminate the deficit by 2017–18.

With over half of all government spending going to compensation, managing public-sector compensation costs is essential to eliminating the deficit and to protecting the health and education services that Ontario families rely on.

Ontarians expect their government and its broader public-sector (BPS) partners to work together and reach agreements that deliver on shared objectives.

The fiscal plan provides no funding for incremental compensation increases for new collective agreements. To achieve the fiscal plan, the government is taking a balanced approach that includes an appreciation of the links between labour relations, compensation, productivity and services; a commitment to dialogue; respect for Charter rights; and the resolve to ensure that long-term sustainability of public services is put ahead of short-term goals.

"Where agreements cannot be reached that are consistent with the government's plan to eliminate the deficit and protect priority public services, or in the face of significant disruption, the government is prepared to propose necessary administrative and legislative measures."

2012 Ontario Budget, p. 74.

Protecting Jobs and the Gains Made in Public Education

The *Putting Students First Act, 2012* — based on the memorandum of understanding between the government and the Ontario English Catholic Teachers Association (OECTA) — gives school boards, teachers and support staff until December 31, 2012, to engage in local collective bargaining and reach agreements consistent with the government's fiscal and policy priorities. These priorities include maintaining investments in full-day kindergarten, keeping class sizes small and protecting funds earmarked for the classroom.

By protecting full-day kindergarten, keeping class sizes at current levels and continuing to focus on students and classrooms, the government is protecting nearly 20,000 education jobs, including 3,800 for full-day kindergarten.

Over the next two years, the *Putting Students First Act, 2012* would support savings of $2 billion.

Further Action to Eliminate the Deficit and Protect Jobs and Public Services

On September 26, 2012, the government announced it would consult on draft legislation that proposes to freeze compensation for all executives and managers across the Ontario Public Service (OPS), board-governed agencies and the BPS who are eligible for performance pay. It also proposes to ensure future BPS collective agreements are consistent with the Province's goals to eliminate the deficit and protect jobs and public services.

The Protecting Public Services Act would, if passed:

- restrain compensation for two years for unionized employees of the BPS and require employers to negotiate agreements that protect key services;

- freeze earnings for two years for managers who are eligible for performance pay in the OPS, agencies and BPS so they would not earn more this year and next than they did last year; and
- introduce a permanent salary cap for new executives at no more than double the Premier's salary — a cap of $418,000 per year.

If passed, the draft legislation would apply its compensation restraint measures upon proclamation, but not to existing collective agreements. It would respect the bargaining process for future collective agreements while ensuring that the next agreement that any bargaining parties reach after the law is in force would cover at least two years and would be subject to review and approval for consistency with the Province's fiscal plan and protection of services. These provisions would sunset when the provincial budget is balanced.

All parties in the BPS would be encouraged to engage in a full collective bargaining process and employers would confirm whether resulting agreements meet the Province's fiscal goals without reducing services.

When the Finance Minister or delegate determines that collective agreements do not meet these goals, parties would be given another opportunity to collectively bargain. After consultation, a collective agreement consistent with the government's goals may be set by the Province.

The proposed legislation would support avoiding increased spending in the BPS of $2.8 billion over three years and help to protect roughly 55,000 public-sector jobs.

The Province is taking strong action to achieve its fiscal targets by reducing costs while protecting front-line services. The proposed draft legislation would build on other initiatives:

- a wage freeze for MPPs of five years;
- pay restraint measures for designated executives at Ontario's hospitals, colleges, universities, school boards and designated agencies; and

- ongoing negotiations with the Ontario Medical Association (OMA) on a new Physician Services Agreement.

Public-Sector Defined Benefit Pension Plans

As part of the *2012 Budget*, the government proposed measures to promote the sustainability, affordability and efficiency of Ontario's public-sector pension plans. These measures build on recent pension reforms, recommendations of the Commission on the Reform of Ontario's Public Services and the Province's temporary solvency funding relief framework, and fall into three categories:

- those affecting jointly sponsored pension plans (JSPPs);
- those affecting single-employer pension plans (SEPPs); and
- those achieving efficiencies in pension fund management.

Jointly Sponsored Pension Plans

Many of Ontario's largest public-sector pension plans are jointly sponsored. Decisions on benefit levels and contributions, as well as responsibility for funding shortfalls, are shared between representatives of employers and plan members. If the joint sponsors cannot reach an agreement on how to address a funding shortfall, the *Pension Benefits Act* requires that the funding gap be addressed through contribution increases.

The *2012 Budget* noted that contribution rates for many of these plans had risen significantly in response to recent funding challenges. To ensure that JSPPs are sustainable and affordable for members as well as other Ontarians, who as taxpayers fund employer contributions, the government announced its intention to consult on a legislative framework that would freeze contribution rates until the deficit is eliminated. During the freeze period, plans that experience new funding shortfalls would be required to reduce future benefits, subject to certain exceptions.

The government continues to engage in extensive consultations with affected plans on this matter. The Province will continue to work with these plans to meet the objectives laid out in the *2012 Budget* while balancing the interests of members, employers and taxpayers.

Single-Employer Pension Plans

Many of Ontario's public-sector employees, particularly those in the university and electricity sectors, are members of SEPPs. Under these plans, the publicly funded employer is solely responsible for funding shortfalls and typically contributes more than plan members — in some cases, two or three times more.

The *2012 Budget* announced that the government would consider various tools to enhance the sustainability of public-sector SEPPs, including adjustments to the temporary solvency relief measures to encourage more equal contribution sharing between employers and plan members. The government expects that public-sector SEPPs will move to a 50/50 cost sharing formula for ongoing contributions within five years.

In the coming months, the government will announce the measures that it believes will help achieve this objective. It will also be consulting with those affected on removing barriers to the creation of JSPPs in the electricity sector.

Pooled Investment Management

Other countries, Canadian provinces and U.S. states have identified the benefits of pooling pension fund investments and several have created new entities to manage these assets. The *2012 Budget* announced the government's intention to introduce a legislative framework that would facilitate pooled investment management for public-sector pension plans.

In May 2012, Bill Morneau was appointed as Pension Investment Advisor to consult with interested parties and develop recommendations for government. Mr. Morneau is Executive Chairman of Morneau Shepell, the largest Canadian firm providing human resource support, pension plan consulting and administration services, and works extensively with organizations in the design and delivery of their employee benefits and compensation programs.

Implementing a pooled investment management framework would allow public-sector pension plans to benefit from reduced investment management costs, improved access to alternative investments and enhanced risk management. These changes are an important step towards improving the sustainability of these plans to the benefit of plan members and taxpayers. Participating plans would continue to retain ownership of their assets. The government looks forward to receiving Mr. Morneau's recommendations.

Section C: Transforming Public Services

Health Care

Since 2003, the government has made significant progress in improving Ontarians' access to care. These improvements include:

- more than 3,400 additional doctors are practising in the province;
- over 2.1 million more Ontarians now have access to a family physician;
- more than 12,600 nursing positions have been created;
- 200 Family Health Teams have been created, providing care to over 2.8 million Ontarians;
- 26 Nurse Practitioner-Led Clinics have opened, which will serve the needs of over 40,000 patients who did not have a family care provider;
- more than 260 first-year undergraduate medical school spaces have been added and four new medical education campuses are successfully operating;
- the number of educational spaces for primary care nurse practitioners has doubled; and
- wait times have been reduced for cancer and cataract surgeries, cardiac procedures, hip and knee replacements, and MRI/CT scans, and Ontario is leading the nation with these reductions.

These investments and results have provided a strong foundation for transformation to a sustainable and high-quality health care system.

In January 2012, the government released Ontario's Action Plan for Health Care, which establishes the road map for this transformation. The government has made significant progress over the first half of the year to establish the groundwork required to implement initiatives that deliver on the three key goals of the Action Plan:

- keeping Ontario healthy;
- faster access and a stronger link to family health care; and
- providing the right care, at the right time, in the right place.

Keeping Ontario Healthy

On May 18, 2012, the government announced the Healthy Kids Panel, which will bring together a group of experts to develop a strategy to reduce childhood obesity in Ontario by 20 per cent over five years. The Panel is working with health care leaders, non-profit organizations and industry to develop evidence-based recommendations to minimize the factors that contribute to obesity during childhood. The Healthy Kids Panel will report back with these recommendations in late 2012.

Faster Access and a Stronger Link to Family Health Care

Increasing access to care by enhancing the potential of health care workers will help ensure Ontarians receive the right care and reduce pressure on other parts of the health care system.

To support this goal, the government is allowing pharmacists to administer the influenza vaccine to Ontarians over the age of five beginning this fall. This will enhance Ontarians' access to the vaccine, while also reducing potential future health care costs by preventing more serious and costly illnesses.

Providing the Right Care, at the Right Time, in the Right Place

Providing Ontarians with timely access to the right care at the right time, in the right place, is an essential component of health care transformation. This means ensuring patients, particularly seniors, receive the care they need as close to home as possible. The government has taken action to improve seniors' quality of life at home and to help reduce pressures on more costly hospital and long-term care services.

On May 24, 2012, the government appointed Dr. Samir Sinha, Director of Geriatrics at Mount Sinai and the University Health Network Hospitals, to lead the development and implementation of the Seniors Care Strategy. Dr. Sinha is consulting broadly and will provide recommendations to the government in the fall on how to support seniors at home and in their community, reducing hospital readmission rates and pressure on long-term care homes.

The Healthy Homes Renovation Tax Credit will assist with the cost of permanent home modifications to improve accessibility and mobility for seniors at home, so they can live independently for as long as possible. The cost of the new tax credit will be fully offset by savings and efficiencies from other government programs. This tax credit is expected to support 10,500 jobs and $800 million in economic activity throughout the economy.

To support an additional 90,000 seniors who receive care at home, the government has also committed to an additional three million Personal Support Worker hours over the next three years.

Funding Reform

Changing the way health care services are funded is another key component of the plan to transform health care. As of April 2012, the government has moved forward with implementing a patient-centred funding model. This approach will be phased in over a three-year timeframe, beginning with hospitals and extending to long-term care homes and Community Care Access Centres.

The new model bases funding on the types and volume of services and treatments that providers deliver. Funding is directed to providers that deliver more efficient services and treatments.

Education

Exceptional teachers and support staff are the driving force that has made Ontario's schools among the best in the world. By working with its education partners, the government has achieved remarkable gains in education over the past nine years including:

- smaller class sizes, with 91 per cent of primary classes having 20 or fewer students compared to 31 per cent in 2003;
- more than 13,400 additional teaching positions funded since 2003;
- more than 27,000 renewal projects and 570 new schools completed or underway across the province since 2003;
- 70 per cent of Grade 3 and 6 students mastering reading, writing and math — Education Quality and Accountability Office (EQAO) results have increased by 16 percentage points since 2003;
- more high school students graduating — 82 per cent in 2010–11, up from 68 per cent in 2003–04; and
- 210,000 more postsecondary students, including 60,000 more apprentices since 2003.

The government has also made tremendous progress on its commitment to deliver full-day kindergarten in every publicly funded elementary school by September 2014. This fall, the program is available in 1,700 schools, benefiting 122,000 children. Almost half of Ontario's four- and five-year-olds are now getting the best possible start by attending full-day kindergarten. By September 2013, about 184,000 children will be able to participate in the program, which will reach approximately 250,000 children across Ontario when fully implemented.

The *Putting Students First Act, 2012* was passed on September 11, 2012. Over the next two years, it would support savings of $2 billion, while ensuring the Province remains on track to building the best-educated workforce, rolling out full-day kindergarten and protecting student achievement. It provides the right balance between reducing the deficit and ensuring Ontario's students continue to learn and thrive in world-class schools.

Strengthening the Children's and Social Services Sector

Protecting social services while ensuring that these services are sustainable over the long term remains a priority for the government. As outlined in the *2012 Budget*, ongoing changes in the children's and social services sector will ensure that support is available to help individuals and families reach their social and economic potential.

Youth Action Plan

In August 2012, the government launched Ontario's Youth Action Plan — a balanced approach to keeping neighbourhoods safe for families by helping young people find jobs, succeed and contribute positively in their communities.

By taking immediate action to expand employment and mentorship opportunities for young people living in underserved and disadvantaged communities, the Youth Action Plan will benefit an additional 13,000 young people each year.

Ontario continues to work with communities and other levels of government to develop a province-wide, evidence-based youth strategy. As part of this strategy, the Province will conduct a cross-government review of programs to ensure that resources are aligned and effectively targeted to achieve intended outcomes.

Improving Child Welfare Outcomes

The Commission to Promote Sustainable Child Welfare completed its work in September 2012. Building on the Commission's work, the government will continue to work with children's aid societies to better focus resources on improving outcomes for children and youth receiving child protection services, while containing costs through agency amalgamations, back-office consolidations and shared service delivery. These changes will be complemented by developing a new funding model, establishing new approaches to accountability, and improving service delivery and financial management by implementing the Child Protection Information Network.

Reforming Social Assistance

As announced in the *2012 Budget*, the government is committed to reforming social assistance into a system that more effectively serves the people it is intended to help, and better supports the social and economic health of communities.

Transforming Natural Resources Services

The government is modernizing the Province's role in natural resources management to operate on a more cost-efficient basis. The review process includes public consultations on automating the ministry's approvals process for permits and licences.

Update on Planned Savings Measures

The government has a record of achieving savings and improving the efficiency of public services. Building on past successes, the government is committed to reforming Ontario's public services by identifying new ways to achieve value and better ways to deliver the core services that Ontarians depend on.

In both the *2011 Budget* and *2012 Budget*, Ontario committed to taking strong actions across government to manage growth in expense while protecting the gains made in education and health care.

Planned Savings of Nearly $1.5 Billion Over Three Years

The *2011 Budget* announced savings of nearly $1.5 billion across government between 2011–12 and 2013–14. These savings were planned in three key areas: operational efficiencies and consolidation; streamlining programs; and further efficiencies in the health care system.

The government remains on target to achieve these savings measures, which include $0.4 billion in 2012–13 and $0.6 billion in 2013–14. Savings of $0.6 billion are also projected to continue into 2014–15.

Update on Expense Management Measures — $4.9 Billion Over Three Years

The *2012 Budget* included an Addendum, *Report on Expense Management Measures,* that provided a detailed list of planned savings totalling $4.9 billion between 2012–13 and 2014–15.

These measures will be achieved by removing overlap and duplication, delivering services more efficiently, and focusing on core business. The government is on track to achieve these savings.

Additional Savings Announced Since the 2012 Budget

On April 25, 2012, the government announced updates to the *2012 Budget* that included proposals to:

- generate an additional $55 million annually in savings by further lowering the price the government pays for the most popular generic drugs; and
- further reduce spending on consultants by $20 million in 2012–13.

TABLE 1.2 Planned Savings
($ Billions)

	2012–13	2013–14	2014–15	Update
2011 Budget Savings Strategies	(0.4)	(0.6)	(0.6)	On track
2012 Budget — Addendum Measures	(1.0)	(1.7)	(2.2)	On track
Additional Savings since the *2012 Budget*	(0.1)	(0.1)	(0.1)	On track
Total Savings	**(1.5)**	**(2.3)**	**(2.9)**	**On track**

Notes: The *2011 Budget* savings of nearly $1.5 billion over three years included $0.4 billion in 2011–12.
Numbers may not add due to rounding.

By taking action to manage expense and building these savings into the fiscal plan, the government has succeeded in meeting part of the challenge to ensure that it remains on track to eliminate the deficit by 2017–18.

Smart Approaches to Infrastructure Investment

The use of Alternative Financing and Procurement (AFP) is one way the Province is making smart investments in infrastructure that work within the current economic and fiscal environment. A made-in-Ontario success story, the AFP model effectively delivers large infrastructure projects using the best of private-sector resources and expertise to attain on-time and on-budget results. Infrastructure Ontario is managing 79 capital projects valued at about $30 billion for the Ontario government using the AFP method. The value for money savings of the projects that Infrastructure Ontario has brought to market are about $3 billion.

The Province has also embarked on a Realty Transformation Strategy as announced in the *2012 Budget*. When fully implemented, this will reduce the Ontario Public Service's footprint by about one million square feet in Toronto, which is comparable to 43 storeys in an office tower. As part of the Realty Transformation Strategy, the government will divest itself of ownership of buildings where it makes sense, which will generate significant savings and free up resources for government priorities.
The Province is still committed to operations in the communities where it currently has offices. Within the next few months, Infrastructure Ontario is expected to move forward with the sale and leaseback of various government-owned buildings across the province.

Ontario Northland Transportation Commission Divestment

The end of Provincial subsidies for the Ontario Northland Transportation Commission (ONTC) will help eliminate the deficit and protect the Province's gains in health care and education. The ONTC has historically operated at a deficit, spending more money on operations and capital repairs than it makes in revenue. For example, ridership on the Northlander train is not commercially viable, and taxpayers can no longer afford the $400 per-passenger subsidy needed to maintain this service. Moreover, based on current trends, supporting the ONTC would require approximately $100 million annually.

Divestment provides the ONTC and its workforce with an opportunity to become commercially viable and compete to win contracts. Savings will also help the government to continue to support valuable northern Ontario job creation and infrastructure programs, such as the Northern Ontario Heritage Fund Corporation and the Northern Highways Program.

On March 23, 2012, the Province announced its plans to divest the ONTC. Important steps are now being taken in that process, including:

- shutting down the Northlander train from Cochrane to Toronto on September 28, 2012. Every community served by the Northlander train is also served by the ONTC bus service, which continues to provide reliable service to northerners;
- transferring the Niska I ferry, which runs between Moosonee and Moose Factory Island, to the Owen Sound Transportation Company, with no changes in service; and
- starting a fair and competitive sale process, led by Infrastructure Ontario, for Ontera telecommunications.

The Polar Bear Express train will continue to provide the same service to rural and remote communities between Cochrane and Moosonee.

ServiceOntario

ServiceOntario provides Ontarians with fast, easy access to government information and services, including registrations, certifications and licensing. This innovative government organization already has an exceptional track record, but there is still room for improvement. For example, greater efficiencies can be gained by providing customers with lower-cost, secure online options to conduct their business with government. However, unlocking these benefits entails a substantial, upfront investment.

The government has passed legislation to enable both public–private partnerships and the ongoing transformation of services, including the continued adoption of online services. The government is exploring potential options and will draw upon lessons learned and successes from previous public–private partnerships to the development of a preferred approach for ServiceOntario. The Province will be moving forward with a competitive process in the coming months.

CHAPTER II

ECONOMIC OUTLOOK

Highlights

- ☑ Private-sector average projected 2012 real GDP growth:
  - *2012 Budget* — 1.9 per cent.
  - Current — 2.0 per cent.
- ☑ Private-sector average projected 2013 real GDP growth — 2.0 per cent.
- ☑ Private-sector average projected 2014 real GDP growth — 2.4 per cent.
- ☑ Net new jobs created since recessionary low in June 2009 — 356,000.
  - The majority of these net new jobs were full-time positions, and in industries paying above-average wages.

Overview

The Ontario economy continues to grow in a challenging global environment, although the pace of growth remains modest. At the same time, economic growth is becoming more balanced. Business investment and net exports will provide the primary foundation for growth over the next several years. Ontario is expected to create nearly 350,000 net new jobs by 2015, reducing the unemployment rate to 6.8 per cent from a high of 9.4 per cent in June 2009. As of September 2012, Ontario employment was 356,000 net jobs above its recessionary low in June 2009.

Since the *2012 Budget*, expectations for global economic growth have weakened. There are considerable risks to the outlook. Economic conditions in Europe have worsened, the growth of emerging market economies has slowed and the U.S. economy remains tentative. However, recent actions by the European Central Bank and the U.S. Federal Reserve have boosted equity markets and reduced financial stress.

For planning purposes, the Ministry of Finance is assuming real gross domestic product (GDP) growth of 2.0 per cent in 2012, 1.9 per cent in 2013, 2.3 per cent in 2014 and 2.4 per cent in 2015.[1] Continued consumer spending, robust business capital investment and a rebound in net trade will be key contributors to growth.

[1] Based on information available to October 5, 2012.

TABLE 2.1 Ontario Economic Outlook
(Per Cent)

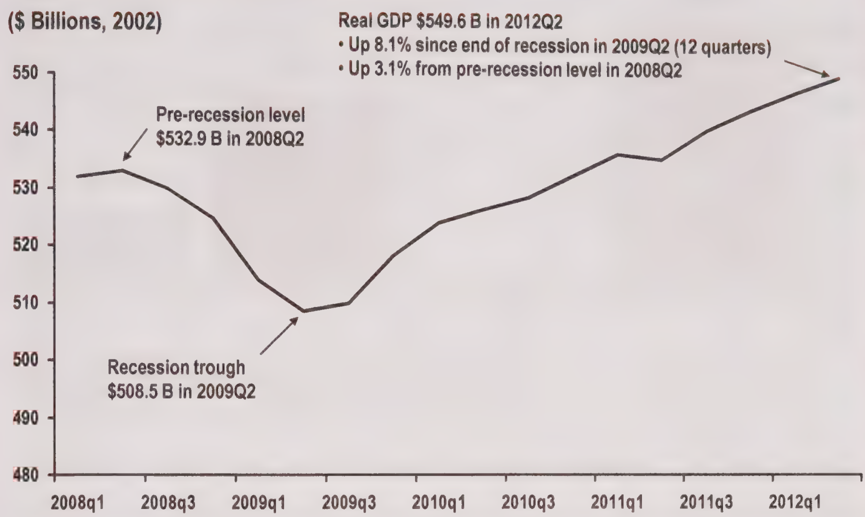
	2009	2010	2011	2012p	2013p	2014p	2015p
Real GDP Growth	(3.2)	3.0	2.1	2.0	1.9	2.3	2.4
Nominal GDP Growth	(0.9)	5.3	4.3	3.2	3.7	4.1	4.2
Employment Growth	(2.5)	1.7	1.8	0.8	1.2	1.5	1.5
CPI Inflation	0.4	2.5	3.1	1.6	2.0	2.0	2.0

p = Ontario Ministry of Finance planning projection.

Sources: Statistics Canada and Ontario Ministry of Finance.

Recent Economic Developments

CHART 2.1 **Ontario Real GDP — Continued Modest Growth**



Sources: Statistics Canada and Ontario Ministry of Finance.

Ontario's real GDP has increased by 8.1 per cent over the past three years, since the end of the recession in the second quarter of 2009. As of the second quarter of 2012, real GDP is 3.1 per cent above its pre-recession peak.

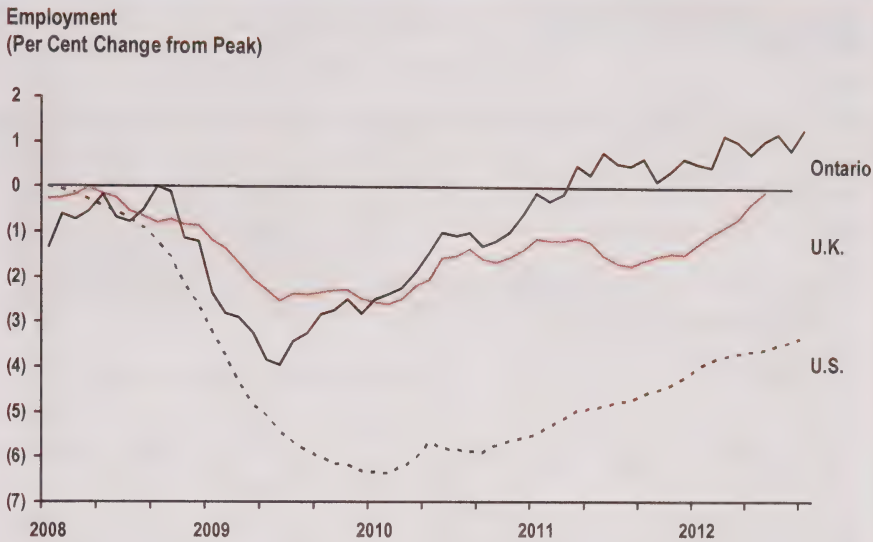
Ontario's real GDP rose 0.5 per cent (2.1 per cent annualized) in the second quarter of 2012, following a 0.6 per cent gain in the first quarter. Solid increases in manufacturing output and international exports led second-quarter growth. Ontario's auto, machinery, and primary and fabricated metal industries all posted healthy gains.

CHART 2.2 Ontario Job Recovery Concentrated in Full-Time Positions and Industries Paying Above-Average Wages

Sources: Statistics Canada and Ontario Ministry of Finance.

From the recessionary low in June 2009, 356,000 net new jobs have been created. Full-time employment rose by 364,700 over this period, while part-time employment declined by 8,700. The majority of the net new jobs were in industries paying above-average wages.

CHART 2.3 Job Recovery in Ontario

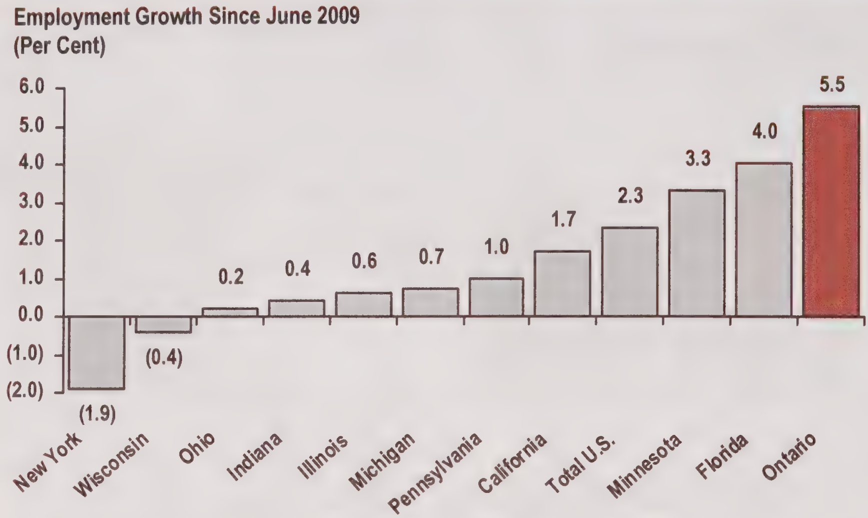


Sources: Statistics Canada, U.S. Bureau of Labor Statistics and U.K. Office for National Statistics.

As of September 2012, Ontario employment was 90,200 net jobs above its pre-recession peak in September 2008 and 356,000 net jobs above its recessionary low in June 2009. Ontario's unemployment rate has also declined from a recessionary high of 9.4 per cent in June 2009 to 7.9 per cent in September 2012.

The pace of job creation in Ontario since June 2009 is ahead of that in the United Kingdom, the United States and all the individual Great Lakes States. All the jobs lost in Ontario during the recession have been recovered, while the United States has recovered just 48.5 per cent of jobs lost.

CHART 2.4 Ontario Job Recovery Stronger Than That of U.S. States



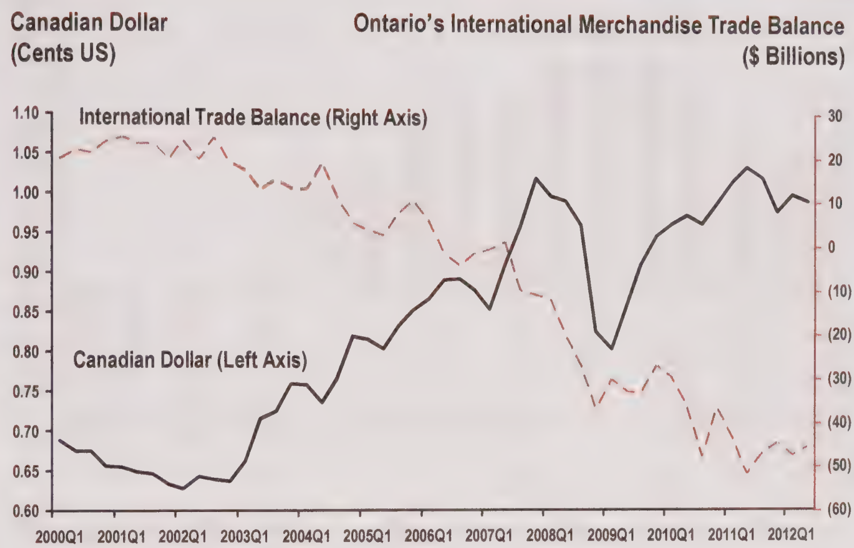
Note: Total U.S. employment is taken from the Current Employment Statistics Survey, while state employment is from Local Area Unemployment Statistics. Ontario and total U.S. employment are current up to September 2012, while individual U.S. states are current up to August 2012.

Sources: Statistics Canada and U.S. Bureau of Labor Statistics.

Competitive Challenges Facing Ontario

The sharp appreciation of the Canadian dollar from 62 cents US in January 2002 to above parity by September 2012 has created a significant competitive challenge for Ontario's exporters.

CHART 2.5 High Canadian Dollar Hindering International Trade



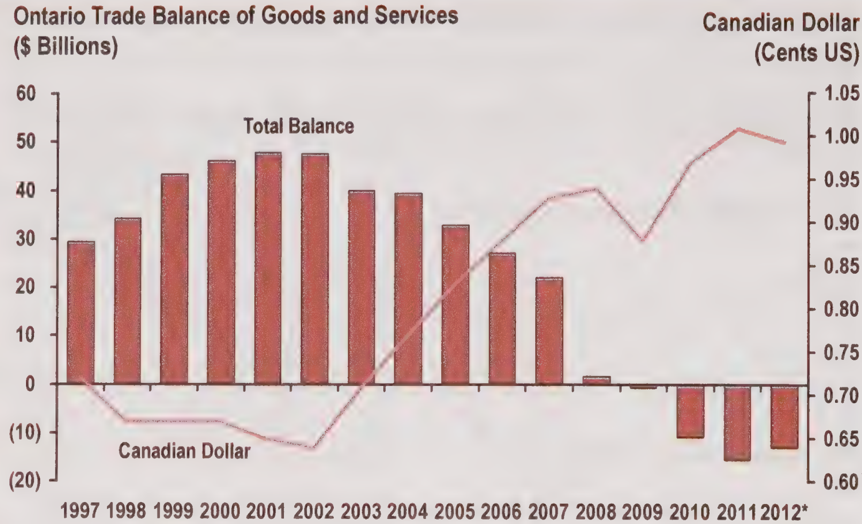
Sources: Ontario Ministry of Finance and Bank of Canada.

The strength of the Canadian dollar reflects strong global demand for commodities, general U.S. dollar weakness relative to most major currencies and international investor confidence in Canada as a financially secure and stable jurisdiction. Canada has experienced strong net inflows of capital, a reflection of its strong economic and fiscal position.

However, the high dollar has had an impact on Ontario's manufacturing and international trade sectors. Ontario's international trade balance has deteriorated from a $24.6 billion surplus in current dollars in the third quarter of 2002 to a deficit of $45.4 billion in the second quarter of 2012.

Ontario's interprovincial exports have grown by 15.6 per cent from a low in the first quarter of 2009. However, the gain in Ontario's interprovincial trade balance has only partially offset the weakness in international trade.

CHART 2.6 Ontario's Trade Balance Weakening



*First half of 2012.
Sources: Statistics Canada and Ontario Ministry of Finance.

Ontario's merchandise exports to rapidly growing BRIC countries (Brazil, Russia, India and China) have nearly quadrupled over the last 10 years, rising from $1.0 billion in 2003 to $3.9 billion in 2012. However, over the same period, Ontario's imports from BRIC countries have nearly tripled to about $30 billion.

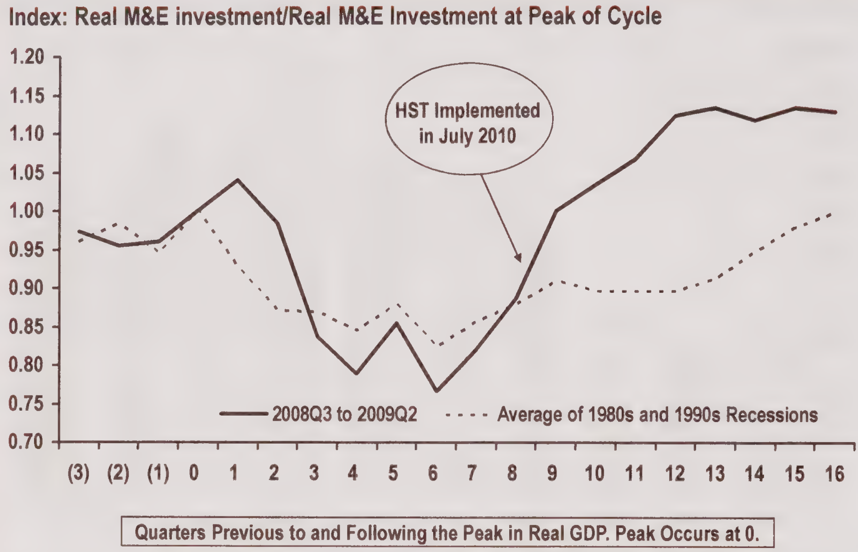
CHART 2.7 Ontario Goods Exports to BRIC* Countries

*BRIC countries are Brazil, Russia, India and China.
p = projected based on year-to-date (January to July) growth rate.
Source: Industry Canada, Trade Data Online.

The strong Canadian dollar will continue to pose a challenge for Ontario exporters. At the same time, though, the strong currency is also an advantage to businesses in lowering the costs of imported, productivity-enhancing capital equipment. In addition, Ontario's improved tax competitiveness, including the introduction of the Harmonized Sales Tax (HST), is encouraging new investment.

Ontario businesses have responded to the competitiveness challenge by significantly boosting investment in plant and equipment. Over the past two years, business investment spending on plant and equipment has risen by over 22 per cent, or $11.1 billion.

CHART 2.8 Ontario Real Machinery and Equipment Investment



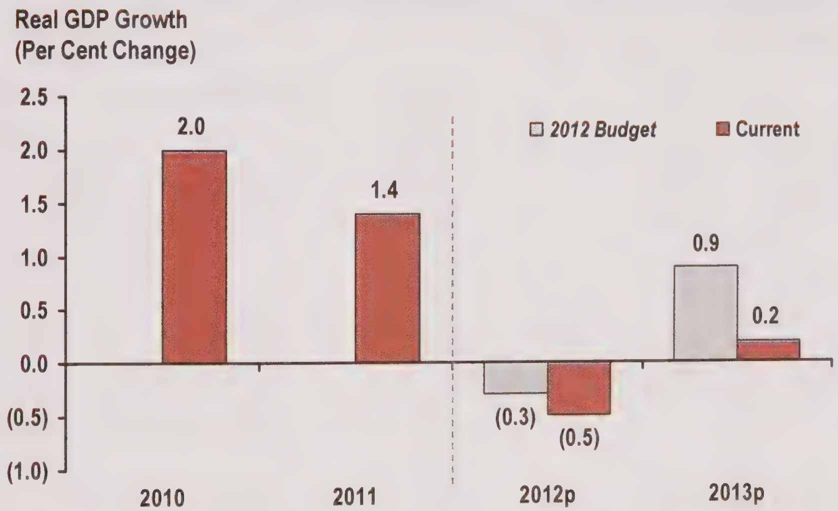
Source: Ontario Ministry of Finance.

Global Economic Uncertainty

Global economic growth has weakened. Many economies in Europe are in recession, reflecting increased political and financial uncertainty, banking sector problems and concerns about the ability of governments to achieve fiscal targets. Actions that the European Central Bank took in September have helped stabilize sovereign debt yields and relieve some financial stress.

Economic growth has also slowed in a number of important emerging market economies, notably Brazil, China and India, reflecting both the weaker outlook for advanced economies as well as slower domestic demand.

CHART 2.9 Euro-Zone Economy Expected to Decline This Year



p = projection.
Sources: Eurostat and *Consensus Economics* (February and September 2012).

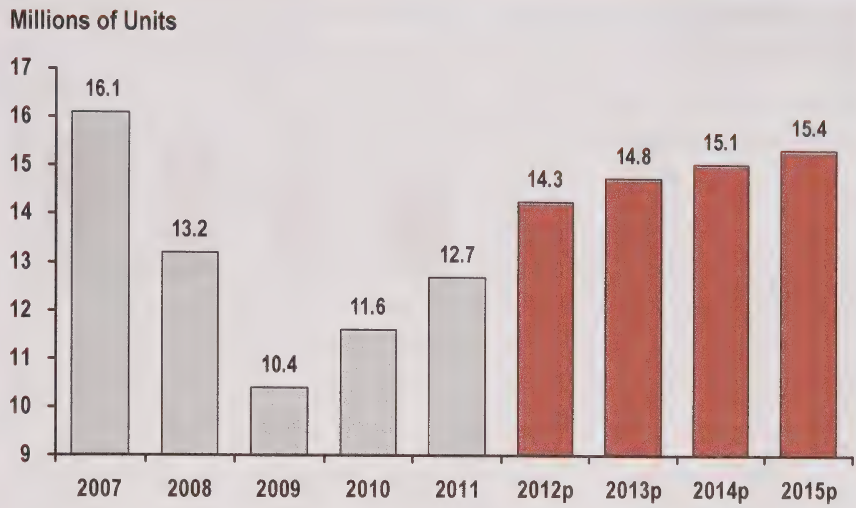
The direct impact of the euro-zone crisis on Ontario has been limited. So far this year, Ontario's exports to the European Union are up by 9.9 per cent.

U.S. Economy

Economic growth in the United States, Ontario's largest trading partner, has remained modest. Real GDP growth has averaged just 1.6 per cent (annualized) over the first two quarters of 2012, while employment gains have remained moderate so far this year. At the same time, the outlook for growth remains positive, supported by the recent actions of the U.S. Federal Reserve.

As U.S. households continue to reduce debt, overall consumer spending growth has been moderate, increasing at an average annual real rate of 2.0 per cent over the last two quarters. U.S. vehicle sales have increased 14.5 per cent so far this year and are up 65 per cent from the recessionary low. Motor vehicle sales are projected to increase steadily from 14.3 million units in 2012 to 15.4 million by 2015, providing a growing market for Ontario auto exports.

CHART 2.10 U.S. Light Motor Vehicle Sales Continue to Grow



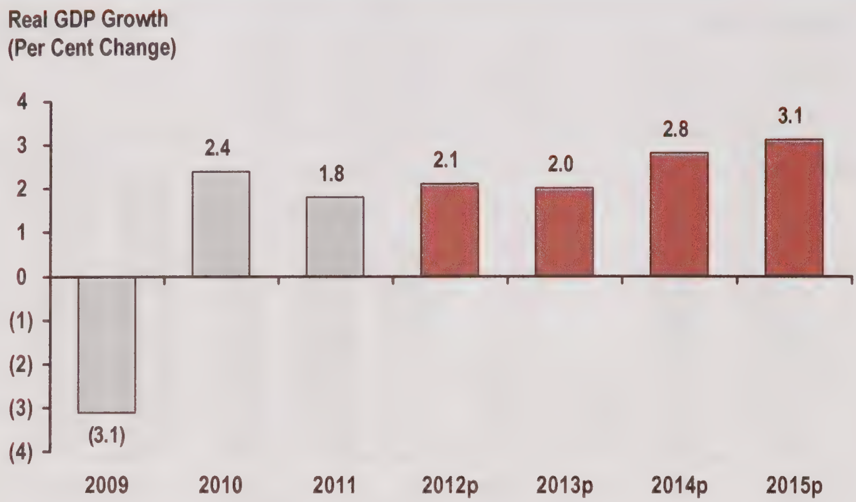
p = private-sector survey average projection.
Sources: U.S. Bureau of Economic Analysis and *Blue Chip Economic Indicators* (October 2012).

The U.S. housing market has begun to recover. Housing starts have improved by 25.7 per cent so far in 2012, while residential construction has emerged as a support for overall growth. U.S. house prices have begun to trend modestly higher, increasing 4.0 per cent between January and July of this year.

Both industrial production and an improving trade performance have helped buoy the U.S. economy, with production up 4.2 per cent so far this year, while exports have risen 5.5 per cent.

After expanding by 1.8 per cent in 2011, U.S. real GDP is projected to grow by 2.1 per cent this year, 2.0 per cent in 2013, 2.8 per cent in 2014 and 3.1 per cent in 2015. Employment is projected to improve modestly, with the unemployment rate declining to 6.9 per cent by 2015.

CHART 2.11 Strengthening U.S. Recovery



p = private-sector survey average projection.
Sources: U.S. Bureau of Economic Analysis and *Blue Chip Economic Indicators* (October 2012).

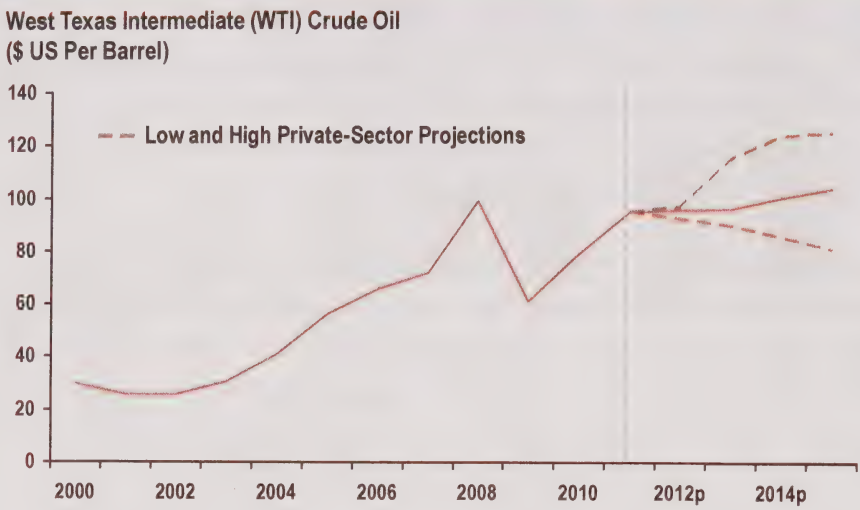
Despite these positive signs, significant risks remain for the U.S. outlook. In particular, if the U.S. Congress and president are unable to reach an agreement, the so-called "fiscal cliff" — a series of scheduled, automatic spending cuts and tax increases — could result in a renewed U.S. recession. While most observers believe that a compromise agreement will be reached, the uncertainty is hurting consumer and business confidence.

Oil Prices

Imports of oil and oil products cost Ontario $20.9 billion in 2011, of which $4.2 billion were international imports. The price of West Texas Intermediate (WTI) crude oil is forecast to average $96 US per barrel in 2012, up slightly from $95 US in 2011. Prices have been volatile this year, with WTI oil prices peaking at $110 US in late February and then declining by almost 30 per cent to $78 US by late June due to a weaker global outlook and rising world inventories.

Rising global demand for oil combined with continued political tensions in North Africa and the Middle East will put upward pressure on oil prices in the near term. There is a wide range of views on the future path of oil prices, reflecting the uncertainty about economic growth and geopolitical risk. Oil prices in 2013 are forecast to average $97 US per barrel, with private-sector forecasts ranging from $90 US to $115 US per barrel. Robust emerging market demand and high recovery costs are expected to keep oil prices at relatively high levels over the forecast period.

CHART 2.12 Oil Prices to Remain High



p = Ontario Ministry of Finance planning projection.
Sources: CME Group, Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasts.

The Canadian Dollar

The Canadian dollar is expected to remain at parity with the U.S. dollar in 2012, down slightly from 101.1 cents US in 2011. The exchange rate has been volatile so far in 2012, dipping to a low of 97.3 cents US in June, as global uncertainty increased and commodity prices weakened. More recently, the dollar has appreciated to a high of 103.3 cents US. Private-sector forecasters expect the dollar to remain close to parity over the medium term as commodity prices remain firm.

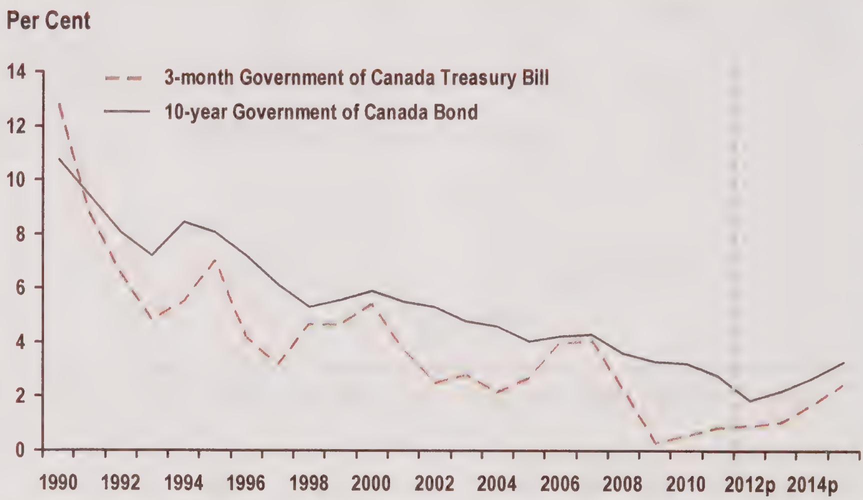
CHART 2.13 Canadian Dollar to Remain Close to Parity

p = Ontario Ministry of Finance planning projection.
Sources: Bank of Canada and Ontario Ministry of Finance.

Financial Markets

Interest rates remain very low as central banks around the world maintain accommodative policies to support economic recovery. In addition, Canada's strong fiscal position compared to that of other countries, coupled with heightened global uncertainty and a weakening global economic outlook, has made Canadian bonds attractive to investors. The yield on the 10-year Government of Canada bond fell to a record low of 1.58 per cent in mid-July 2012. As economic growth strengthens over the medium term, private-sector forecasters expect interest rates to rise gradually to more normal levels.

CHART 2.14 Interest Rates to Rise Gradually



p = Ontario Ministry of Finance planning projection.
Sources: Bank of Canada and Ontario Ministry of Finance.

Since September 2010, the Bank of Canada has maintained its target for the overnight rate at one per cent. On average, private-sector economists expect the interest rate on three-month treasury bills to average 1.0 per cent this year, rise to 1.1 per cent in 2013 and reach 2.5 per cent by 2015. The yield on 10-year Government of Canada bonds is also expected to rise gradually from 1.9 per cent this year to 2.2 per cent in 2013, and reach 3.3 per cent by 2015.

Forecasts for key external factors are summarized in the table below. These are used as the basis for the Ministry of Finance's forecast for Ontario's economic growth.

TABLE 2.2 Outlook for External Factors

	2009	2010	2011	2012p	2013p	2014p	2015p
World Real GDP Growth (Per Cent)	(0.6)	5.1	3.8	3.3	3.6	4.1	4.4
U.S. Real GDP Growth (Per Cent)	(3.1)	2.4	1.8	2.1	2.0	2.8	3.1
West Texas Intermediate Crude Oil ($US/bbl.)	61.7	79.4	95.1	96.0	96.5	100.5	104.0
Brent Crude Oil ($US/bbl.)	61.7	79.6	111.3	112.5	109.3	110.7	112.4
Canadian Dollar (Cents US)	87.6	97.1	101.1	100.0	101.0	101.5	101.5
Three-Month Treasury Bill Rate[1] (Per Cent)	0.3	0.6	0.9	1.0	1.1	1.7	2.5
10-Year Government Bond Rate[1] (Per Cent)	3.3	3.2	2.8	1.9	2.2	2.7	3.3

p = Ontario Ministry of Finance planning projection based on external sources.

[1] Government of Canada interest rates.

Sources: IMF World Economic Outlook (October 2012), U.S. Bureau of Economic Analysis, *Blue Chip Economic Indicators* (October 2012), CME Group, IntercontinentalExchange, Bank of Canada, Ontario Ministry of Finance Survey of Forecasts (October 2012) and Ontario Ministry of Finance.

Table 2.3 provides the current estimate of the impact of changes in key external factors on the growth of Ontario's real GDP, assuming that other external factors remain unchanged. The relatively wide ranges of the impacts reflect uncertainty in estimates of how the economy would respond to changing external conditions.

TABLE 2.3 Impacts of Sustained Changes in Key External Factors on Ontario's Real GDP Growth

(Percentage Point Increase)

	First Year	Second Year
Canadian Dollar Depreciates by Five Cents US	0.1 to 0.8	0.5 to 1.2
Crude Oil Prices Decrease by $10 US per Barrel	0.1 to 0.3	0.1 to 0.3
U.S. Real GDP Growth Increases by One Percentage Point	0.3 to 0.7	0.4 to 0.8
Canadian Interest Rates Decrease by One Percentage Point	0.1 to 0.5	0.2 to 0.6

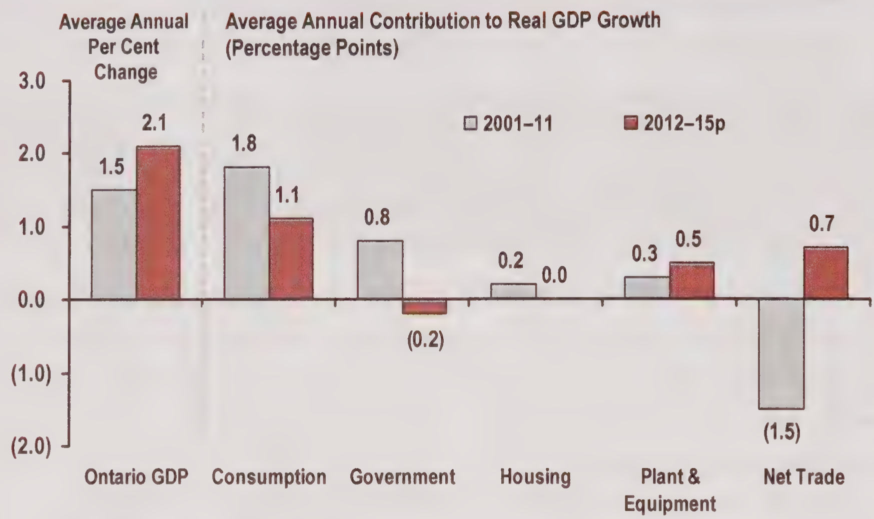
Source: Ontario Ministry of Finance.

Outlook for Ontario Economic Growth

The Ministry of Finance is projecting growth of 2.0 per cent in Ontario real GDP this year. Strong residential and business investment, improved net exports and moderate gains in consumer spending will all support growth.

Employment is forecast to increase by 0.8 per cent in 2012, or 51,000 net new jobs. Modest employment and income gains will support a 1.2 per cent increase in real consumer spending this year. Residential investment is expected to increase by 5.0 per cent, reflecting the strength of housing starts and renovation activity. Business investment in plant and equipment is projected to increase by a healthy 3.7 per cent this year, benefiting from the strong Canadian dollar and Ontario's improved tax competitiveness, including the HST. Ontario exports are expected to rise by 5.4 per cent this year, slightly stronger than a 3.2 per cent increase in imports.

CHART 2.15 Forecast for Sustained and Better Balanced Growth

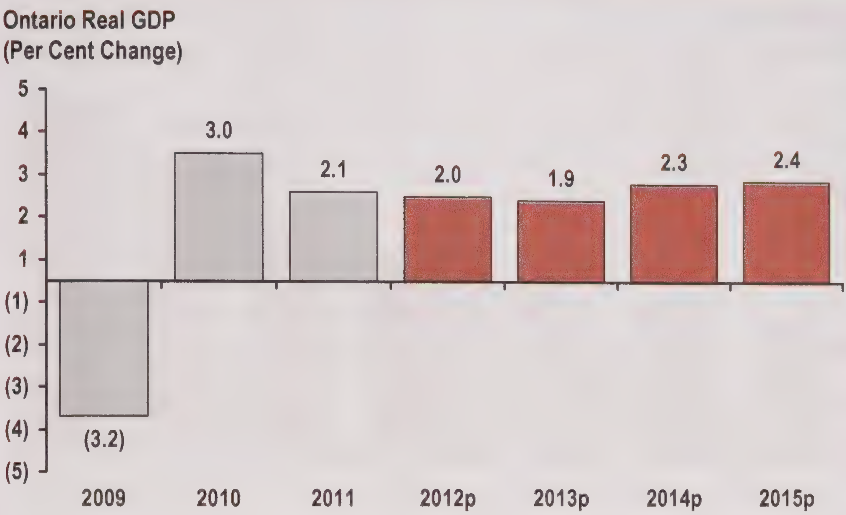


p = Ontario Ministry of Finance planning projection.
Source: Ontario Ministry of Finance.

The Ministry of Finance is projecting continued moderate growth in Ontario's economy. Real GDP is projected to grow by 1.9 per cent in 2013, 2.3 per cent in 2014 and 2.4 per cent in 2015. Growth is expected to be more balanced over the forecast horizon than over the past decade.

Net trade, which deteriorated from 2001 to 2011 as a result of the sharp exchange-rate appreciation, is expected to contribute positively to growth over the medium term. Business investment will also make a solid contribution to growth, reflecting Ontario's strong fundamentals including a competitive tax structure, a skilled labour force and high-quality modern infrastructure. Consumer spending is projected to contribute more modestly to growth as households scale back debt and rely on income growth to finance spending. Government spending, which was a primary support for the economy during the economic downturn, is expected to be restrained as governments focus on returning to fiscal balance.

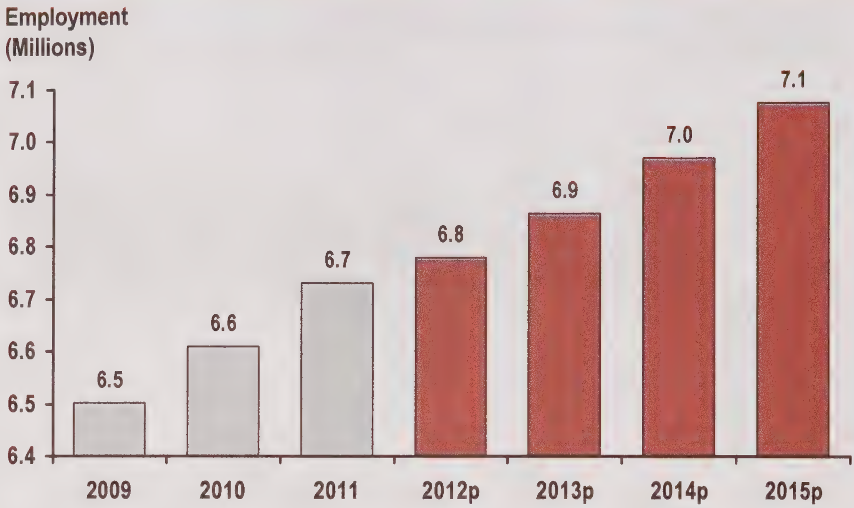
CHART 2.16 **Continued Economic Growth Expected**



p = Ontario Ministry of Finance planning projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

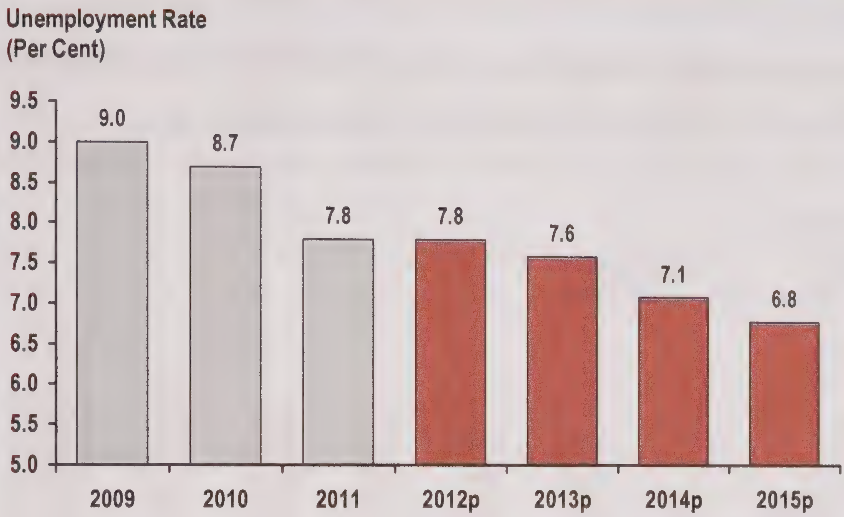
Job creation in Ontario is expected to strengthen over the medium term, increasing by 1.2 per cent in 2013 and by 1.5 per cent in both 2014 and 2015, resulting in almost 350,000 more jobs in 2015 compared to 2011. The unemployment rate is projected to fall to 7.6 per cent in 2013 and steadily decline to 6.8 per cent by 2015 as employment outpaces labour force growth.

CHART 2.17 Employment Will Continue to Increase



p = Ontario Ministry of Finance planning projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

CHART 2.18 Lower Unemployment Rate

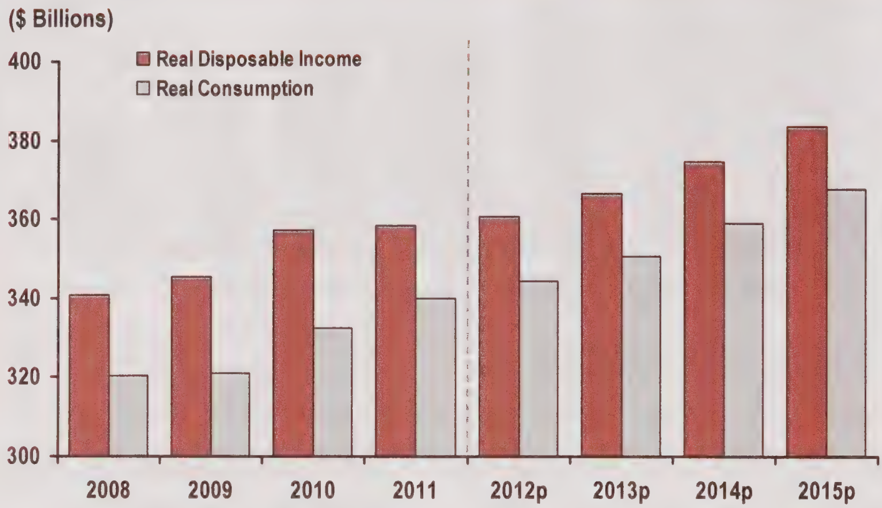


p = Ontario Ministry of Finance planning projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

Labour income is projected to increase by 3.7 per cent annually on average over the 2012 to 2015 period. Similarly, personal income growth is expected to average 3.7 per cent annually over the same period.

Real consumer spending growth is expected to slow from 2.3 per cent in 2011 to 1.2 per cent in 2012. Over the medium term, real consumer spending is expected to grow in line with real disposable income as households focus on consolidating and reducing overall debt levels.

CHART 2.19 Sustained Increases in Household Spending



p = Ontario Ministry of Finance planning projection.
Source: Ontario Ministry of Finance.

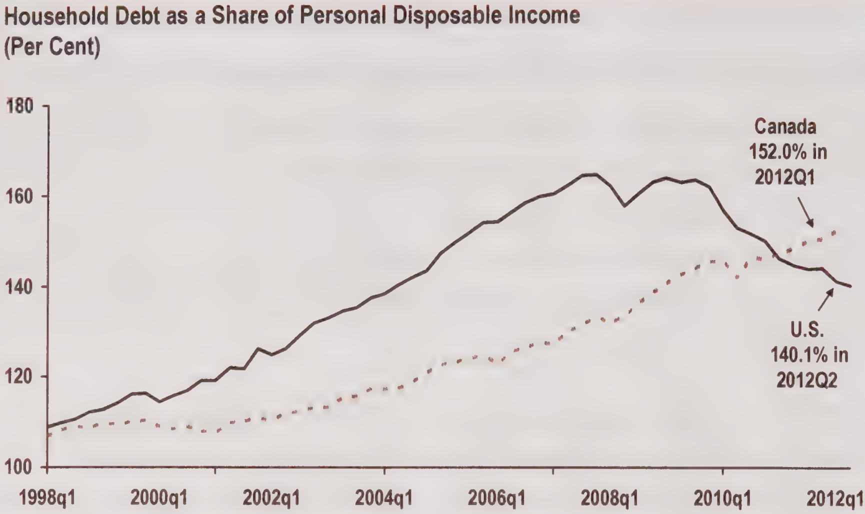
Ontario's consumer price index (CPI) inflation rate is projected to be 1.6 per cent in 2012. Moderate energy price gains have contributed to lower inflation in 2012. So far this year, the CPI for gasoline has increased by 1.5 per cent, compared to an increase of over 20 per cent in 2011. Consumer price inflation is expected to increase moderately in 2013, reflecting, in part, higher food prices due to drought conditions through much of North America in 2012. Consumer prices are forecast to increase by 2.0 per cent each year over the 2013 to 2015 period.

The Ontario housing market was particularly strong in the first quarter of 2012, supported by solid underlying demand and record-low mortgage rates. Housing indicators through the summer, though, have pointed to a cooling in the market. Demand is expected to moderate further due to recent changes to mortgage rules.

The average resale home price for Ontario is currently almost 40 per cent above the recessionary low in October 2008. House prices are expected to ease over the medium term, although the range of private-sector forecasts varies widely. Some private-sector economists are calling for price declines of up to 15 per cent over three years, while others predict that prices will remain relatively unchanged.

Demand for new homes in Ontario will continue to be sustained by underlying growth in the population, which is projected to average 1.2 per cent annually over the next four years. This will result in an additional 637,000 people living in the province by 2015 and an additional 280,000 new households. Housing starts are projected to average 70,000 units per year between 2012 and 2015, consistent with the pace of household formation.

CHART 2.20 **Canadian Household Debt Continues to Rise**

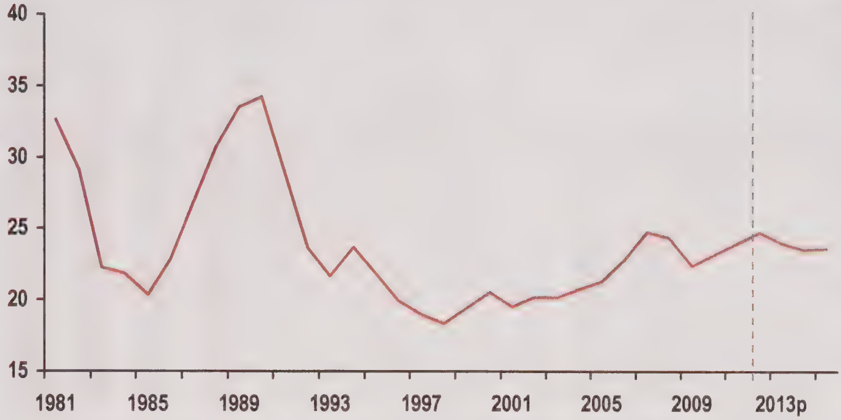


Note: Household sector includes households, non-profit organizations and unincorporated businesses. Household debt is credit market debt, which excludes trade accounts payable.
Sources: Statistics Canada and U.S. Federal Reserve.

The rising level of household debt remains a risk for the housing market outlook. Record-low interest rates have encouraged households to increase debt levels and, while growth in consumer debt has slowed recently, mortgage borrowing has continued to expand at a brisk pace. But, with interest rates expected to remain near record lows into 2014, debt servicing costs remain affordable.

CHART 2.21 Housing in Ontario to Remain Affordable

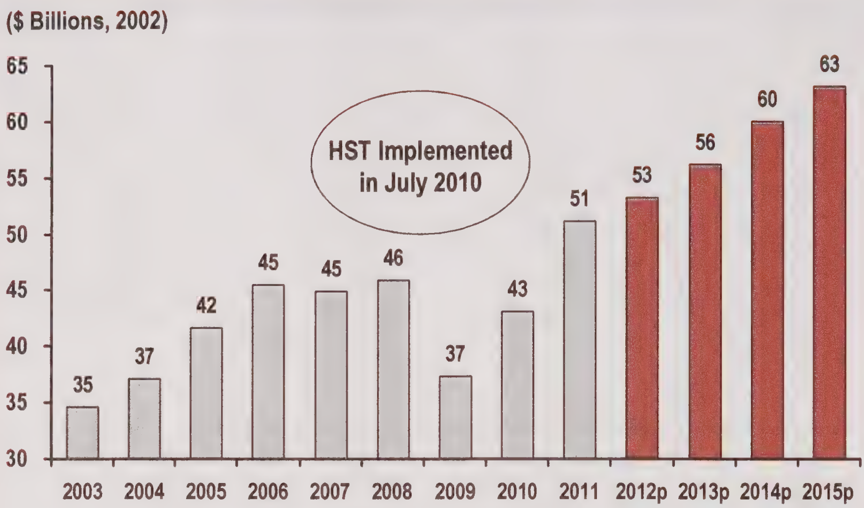
Mortgage Carrying Cost as a Share of Disposable Income per Household (Per Cent)



p = Ontario Ministry of Finance planning projection.
Note: Carrying cost is based on the average five-year mortgage rate, a 25-year amortization and a 25 per cent down payment.
Sources: Statistics Canada, Canadian Real Estate Association and Ontario Ministry of Finance.

Improving corporate profitability, increased tax competitiveness, including the introduction of the HST, and falling prices for machinery and equipment will support business investment over the forecast horizon. After increasing by 19.1 per cent in 2010, corporate profits rose by 14.0 per cent in 2011 and are expected to rise by a further 2.8 per cent in 2012. At the same time, the price of machinery and equipment has declined in recent years, partly as a result of the strong Canadian dollar. Machinery and equipment investment is forecast to remain robust, increasing by 5.9 per cent in 2012 and by an annual average of 4.4 per cent over the 2013 to 2015 period.

CHART 2.22 Sustained Gains in Business Machinery and Equipment Spending



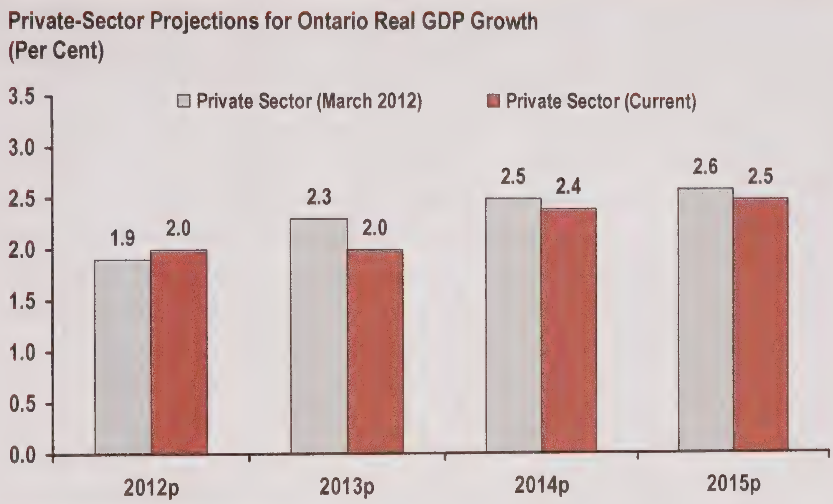
p = Ontario Ministry of Finance planning projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

Steady gains in U.S. auto sales and generally stronger global growth will support Ontario exports. Real exports are projected to increase by an average of 4.4 per cent annually between 2012 and 2015, outpacing a 3.0 per cent rise in imports and resulting in an improvement in Ontario's net trade position.

Change in the Economic Outlook

The current private-sector average outlook for Ontario real GDP growth is 2.0 per cent in 2012, slightly stronger than the 1.9 per cent projected at the time of the *Budget*. For 2013 to 2015, private-sector growth expectations have moderated since the time of the *Budget*, largely reflecting slower U.S. and global growth.

CHART 2.23 Private-Sector Economic Forecasts for Ontario Slower in the Medium Term



p = private-sector survey average projection.
Source: Ontario Ministry of Finance Survey of Forecasts.

Comparison to the *2012 Ontario Budget*

TABLE 2.4 Changes in Key Economic Forecast Assumptions
2012 Budget* Compared to *2012 Fall Economic Statement

(Per Cent Increase)

	2012p		2013p		2014p	
	2012 Budget	2012 FES	2012 Budget	2012 FES	2012 Budget	2012 FES
Real Gross Domestic Product	1.7	2.0	2.2	1.9	2.4	2.3
Nominal Gross Domestic Product	3.4	3.2	4.1	3.7	4.2	4.1
Retail Sales	3.0	2.2	3.7	3.7	3.9	3.9
Housing Starts (000s)	64.0	77.0	63.0	65.0	69.0	68.0
Personal Income	2.9	2.7	3.7	3.8	4.2	4.1
Labour Income	3.2	2.5	4.2	3.9	4.3	4.3
Corporate Profits	4.0	2.8	4.6	2.1	4.9	3.0
Employment	0.9	0.8	1.3	1.2	1.5	1.5
Job Creation (000s)	59	51	89	84	103	106
Key External Variables						
U.S. Real Gross Domestic Product	2.3	2.1	2.6	2.0	3.0	2.8
WTI Crude Oil ($ US per Barrel)	100.2	96.0	103.8	96.5	106.5	100.5
Canadian Dollar (Cents US)	98.0	100.0	101.0	101.0	102.5	101.5
3-month Treasury Bill Rate[1] (Per Cent)	0.9	1.0	1.4	1.1	2.4	1.7
10-year Government Bond Rate[1] (Per Cent)	2.2	1.9	2.8	2.2	3.8	2.7

p = Ontario Ministry of Finance planning projection.

[1] Government of Canada interest rates.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation, Bank of Canada, CME Group, U.S. Bureau of Economic Analysis, *Blue Chip Economic Indicators* (October 2012), Ontario Ministry of Finance Survey of Forecasts (October 2012) and Ontario Ministry of Finance.

Private-Sector Forecasts

The Ministry of Finance consults with private-sector economists and tracks their forecasts to inform the government's planning assumptions. Additionally, in the process of preparing the *2012 Ontario Economic Outlook and Fiscal Review*, the Minister of Finance met with private-sector economists to discuss their views on the economy. All private-sector economists are projecting continued growth for Ontario over the forecast horizon. On average, they are projecting growth of 2.0 per cent in 2012, 2.0 per cent in 2013, 2.4 per cent in 2014 and 2.5 per cent in 2015.

TABLE 2.5 Private-Sector Forecasts for Ontario Real GDP Growth
(Per Cent)

	2012	2013	2014	2015
BMO Capital Markets (October)	2.0	1.8	–	–
Central 1 Credit Union (October)	2.1	1.9	2.2	2.6
Centre for Spatial Economics (June)	2.1	2.3	1.8	2.1
CIBC World Markets (October)	2.1	1.8	2.2	2.3
Conference Board of Canada (July)	2.1	2.3	2.9	2.5
Desjardins Group (September)	2.1	2.0	2.5	2.5
IHS Global Insight (July)	1.8	1.9	2.2	2.4
Laurentian Bank Securities (October)	2.0	1.9	–	–
National Bank (June)	1.8	1.7	–	–
RBC Financial Group (September)	2.2	2.3	–	–
Scotiabank Group (September)	1.8	1.7	–	–
TD Bank Financial Group (September)	1.9	1.8	2.4	–
University of Toronto (July)	2.1	2.1	2.9	3.0
Private-Sector Survey Average	**2.0**	**2.0**	**2.4**	**2.5**
Ontario's Planning Assumption	**2.0**	**1.9**	**2.3**	**2.4**

Sources: Ontario Ministry of Finance Survey of Forecasts (October 2012) and Ontario Ministry of Finance.

Details of the Ontario Economic Outlook

The following table provides details of the Ministry of Finance's economic outlook for 2012 to 2015.

TABLE 2.6 The Ontario Economy, 2010 to 2015
(Per Cent Change)

	Actual		Projection			
	2010	2011	2012	2013	2014	2015
Real Gross Domestic Product	**3.0**	**2.1**	**2.0**	**1.9**	**2.3**	**2.4**
Personal Consumption	3.6	2.3	1.2	1.9	2.4	2.4
Residential Construction	8.3	5.2	5.0	(1.6)	(1.1)	(0.5)
Non-residential Construction	(1.6)	5.6	6.3	3.8	3.3	1.9
Machinery and Equipment	15.2	18.7	3.1	4.9	6.1	4.4
Exports	7.5	1.7	5.4	3.9	4.2	4.1
Imports	13.3	2.4	3.2	2.6	3.2	3.0
Nominal Gross Domestic Product	**5.3**	**4.3**	**3.2**	**3.7**	**4.1**	**4.2**
Other Economic Indicators						
Retail Sales	5.4	3.6	2.2	3.7	3.9	4.2
Housing Starts (000s)	60.4	67.8	77.0	65.0	68.0	70.0
Personal Income	4.2	3.1	2.7	3.8	4.1	4.2
Labour Income	3.9	3.4	2.5	3.9	4.3	4.3
Corporate Profits	19.1	14.0	2.8	2.1	3.0	3.1
Consumer Price Index	2.5	3.1	1.6	2.0	2.0	2.0
Employment	1.7	1.8	0.8	1.2	1.5	1.5
Job Creation (000s)	108	121	51	84	106	106
Unemployment Rate (Per Cent)	8.7	7.8	7.8	7.6	7.1	6.8
Key External Variables						
U.S. Real Gross Domestic Product	2.4	1.8	2.1	2.0	2.8	3.1
WTI Crude Oil ($ US per Barrel)	79.4	95.1	96.0	96.5	100.5	104.0
Canadian Dollar (Cents US)	97.1	101.1	100.0	101.0	101.5	101.5
3-month Treasury Bill Rate[1]	0.6	0.9	1.0	1.1	1.7	2.5
10-year Government Bond Rate[1]	3.2	2.8	1.9	2.2	2.7	3.3

[1] Government of Canada interest rates (per cent).

Sources: Statistics Canada, Canada Mortgage and Housing Corporation, Bank of Canada, U.S. Bureau of Economic Analysis, *Blue Chip Economic Indicators* (October 2012), CME Group, Ontario Ministry of Finance Survey of Forecasts (October 2012) and Ontario Ministry of Finance.

CHAPTER III

FISCAL OUTLOOK

Highlights

- ☑ The results from the *2011–2012 Public Accounts of Ontario* confirmed a $13.0 billion deficit for 2011–12 — $3.3 billion ahead of the 2011 Budget Plan and 47 per cent lower than the 2009–10 deficit of $24.7 billion forecast in the fall of 2009.
- ☑ 2012–13 deficit outlook — $14.4 billion, $0.4 billion ahead of the 2012 Budget Plan.
- ☑ The Province remains on track to meet the *2012 Budget* deficit targets in 2013–14 and 2014–15.
- ☑ Total expense is unchanged from the 2012 Budget Plan.

Section A: Overview

The *2012 Budget* outlined the next stage in the government's plan to eliminate the deficit through a renewed focus on expenditure management. In the *2011–2012 Public Accounts of Ontario*, the government announced the deficit for 2011–12 was $13.0 billion, marking the third consecutive year in which the Province has improved on its fiscal projections. This result is also 47 per cent lower than the 2009–10 deficit of $24.7 billion forecast in the fall of 2009, at the depth of the global recession.

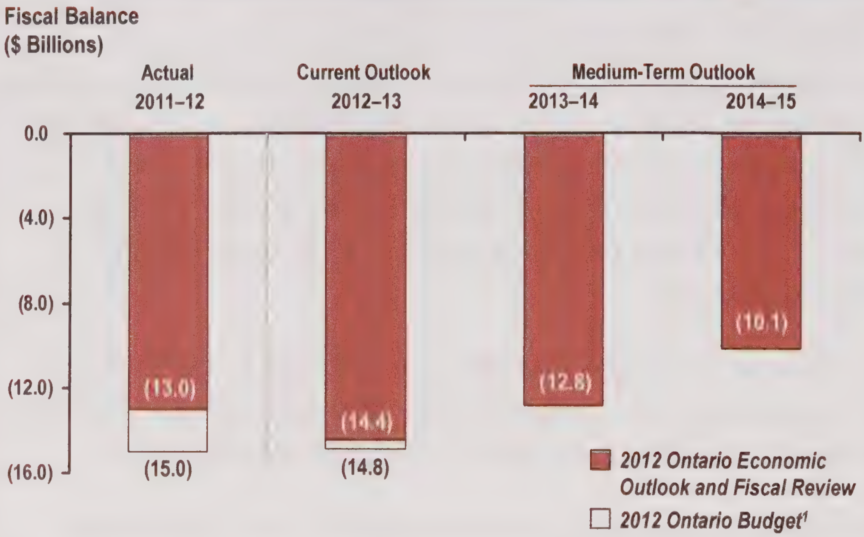
The deficit for 2012–13 is currently projected to be $14.4 billion, an improvement of $0.4 billion from the *2012 Budget* forecast. The plan to eliminate the deficit is working, on track and achieving results.

While Ontario's economy is growing modestly, it is facing challenges in the context of global economic uncertainty. Economic conditions in Europe have worsened, the growth of emerging market economies has slowed and the U.S. economy remains tentative.

Moving forward, even in the face of continued global economic uncertainty, the government is more focused than ever on reaching the goals it set out on the path to eliminating the deficit. Towards that end, the deficit outlook for 2012–13 has improved from the *2012 Budget* forecast and the deficit projections for 2013–14 and 2014–15 remain on track with the targets outlined in the *2012 Budget*.

This chapter outlines Ontario's fiscal outlook for 2012–13 and the medium-term forecast for 2013–14 and 2014–15.

CHART 3.1 Ontario's Medium-Term Fiscal Outlook



[1] Reflects the 2012 Budget Plan as outlined in the April 25, 2012 fiscal update.

Section B: 2012–13 Fiscal Performance

In the fall of 2009, at the depth of the global economic recession, Ontario was facing a $24.7 billion deficit. The government laid out a plan that included steadily declining deficits and eliminating the deficit by 2017–18. Three years later, this plan remains on track.

The *2012 Budget* proposed strong action to balance the budget. As outlined in the update to the fiscal plan released on April 25, 2012, the government remains committed to managing the growth in spending and eliminating the deficit by 2017–18.

The deficit for 2012–13 is currently projected to be $14.4 billion, an improvement of $0.4 billion from the *2012 Budget* forecast.

The 2012–13 revenue projection of $113,019 million is $445 million above the *2012 Budget* outlook, largely reflecting a higher estimated 2011–12 tax base.

Both program expense and total expense are on track with the *2012 Budget* projections, reflecting the government's commitment to manage growth in expense.

The 2012 Budget Plan included prudence in the form of a $1.0 billion reserve in 2012–13 to protect the fiscal plan from the potential impact of external events that could deteriorate the Province's fiscal performance. With the revenue outlook currently tracking above the *2012 Budget* forecast, and Provincial spending unchanged, the fiscal plan continues to maintain that reserve. If the reserve is not needed by year-end, the deficit will be further reduced by $1.0 billion.

TABLE 3.1 2012–13 In-Year Fiscal Performance

($ Millions)

	Budget Plan[1]	Current Outlook	Change Since Budget
Revenue	**112,573**	**113,019**	**445**
Expense			
Programs	115,774	115,788	14
Interest on Debt	10,619	10,601	(18)
Total Expense	**126,393**	**126,389**	**(4)**
Reserve	1,000	1,000	–
Surplus/(Deficit)	**(14,820)**	**(14,371)**	**449**

[1] Reflects the 2012 Budget Plan as outlined in the April 25, 2012 fiscal update.

Note: Numbers may not add due to rounding.

2012–13 Revenue Changes Since the *2012 Budget*

The 2012–13 revenue projection of $113,019 million is $445 million above the 2012 Budget outlook, largely reflecting a higher estimated 2011–12 tax base.

TABLE 3.2 Summary of Revenue Changes Since the *Budget*[1]
($ Millions)

		2012–13
Taxation		
Corporations Tax	300	
Personal Income Tax	280	
Land Transfer Tax	25	
Ontario Health Premium	25	
Sales Tax	(200)	
Total Taxation		**430**
Government of Canada		**15**
Total Revenue Changes Since the *Budget*		**445**

[1] Reflects the 2012 Budget Plan as outlined in the April 25, 2012 fiscal update.
Note: Numbers may not add due to rounding.

Details of 2012–13 In-Year Revenue Changes

Key revenue changes since the *2012 Budget* forecast include the following:

- **Corporations Tax** (CT) revenue is up $300 million due to stronger 2011 results based on tax returns processed since the *2012 Budget*.
- **Personal Income Tax** (PIT) revenue is projected to be $280 million, or 1.1 per cent, higher due to stronger 2011 results based on tax returns processed since the *2012 Budget*.
- **Land Transfer Tax** is projected to be $25 million higher, reflecting stronger receipts to date.
- **Ontario Health Premium** revenue is projected to be $25 million, or 0.8 per cent, higher due to stronger 2011 results based on tax returns processed since the *2012 Budget*.

- **Sales Taxes** are $200 million lower due to the higher cost of transitional housing measures provided under Ontario's Harmonized Sales Tax (HST) and lower federal estimates of Ontario's HST entitlement for 2012.
- **Government of Canada** transfers are up $15 million due largely to federal funding to support the extension of the Targeted Initiative for Older Workers agreement.

2012–13 Expense Changes Since the *2012 Budget*

A key component of the government's plan to eliminate the deficit is the continued effort towards managing the growth in expense. Consistent with this commitment, total expense has decreased by $3.7 million compared to the 2012 Budget Plan.

TABLE 3.3 Summary of Expense Changes Since the *Budget*[1]
($ Millions)

	2012–13
Program Expense Changes	
Emergency forest firefighting	72.0
Disaster relief assistance	16.0
Contingency funds	(88.0)
Extension of Targeted Initiative for Older Workers, offset by federal funding	15.3
Other program expenses	(1.0)
Total Program Expense Changes	**14.3**
Interest on Debt	(18.0)
Total Expense Changes Since the *Budget*	**(3.7)**

[1] Reflects the 2012 Budget Plan as outlined in the April 25, 2012 fiscal update.
Note: Numbers may not add due to rounding.

Details of 2012–13 In-Year Expense Changes

Key 2012–13 expense changes from the *2012 Budget* forecast include:

- An increase of $72.0 million for **emergency forest firefighting** to provide additional resources during the 2012 fire season.
- An increase of $16.0 million to support **disaster relief assistance** for the City of Thunder Bay, the Township of Conmee and the Municipality of Oliver Paipoonge, for flooding that occurred in late May.
- A decrease of $88.0 million in the **contingency funds** to offset expense increases for disaster relief to the City of Thunder Bay, the Township of Conmee and the Municipality of Oliver Paipoonge; and emergency forest firefighting.
- An increase of $15.3 million as a result of federal funding to extend the **Targeted Initiative for Older Workers** program in the Ministry of Training, Colleges and Universities.
- A decrease of $1.0 million in all **other program expenses** primarily arising from the establishment of the Nawiinginokiima Forest Management Corporation, a new government agency that will manage the forest and oversee the sale of timber in an area located along the northeast shore of Lake Superior.

Interest on debt expense is $18.0 million lower than forecast in the *2012 Budget*, primarily as a result of the improvement in the deficit projection for 2012–13 and lower-than-forecast interest rates.

Section C: Ontario's Medium-Term Fiscal Outlook

Medium-Term Revenue Outlook

The medium-term revenue outlook reflects current revenue information and projections for the Province's economic growth as outlined in Chapter II: *Economic Outlook*. The current revenue outlook is prudent given economic uncertainties.

TABLE 3.4 Summary of Medium-Term Revenue Outlook
($ Billions)

	Actual	Projected Outlook		
	2011–12	2012–13	2013–14	2014–15
Revenue				
Taxation Revenue	75.6	79.6	81.6	85.3
Government of Canada	21.3	21.8	23.0	23.5
Income from Government Business Enterprises	4.4	4.1	4.4	5.3
Other Non-Tax Revenue	8.5	7.6	7.6	7.5
Total Revenue	**109.8**	**113.0**	**116.6**	**121.6**

Note: Numbers may not add due to rounding.

Taxation Revenue is projected to grow at an average annual rate of 4.1 per cent compared to average nominal gross domestic product (GDP) growth of 3.7 per cent. The taxation revenue outlook is prudent given economic uncertainties discussed in Chapter II and could be significantly affected by key revenue information still to be received. The latter includes final 2011 corporate and personal income tax return processing results, as well as federal government entitlement estimates for Harmonized Sales Tax (HST) to be received in December 2012 and ongoing information on HST assessments.

Government of Canada transfers are projected to grow at an average annual rate of 3.3 per cent over the medium term. The increase over the forecast period largely reflects projected increases in the major Government of Canada transfers.

The forecast for **Government Business Enterprises** is based on information provided by the individual enterprises. The decrease in 2012–13 reflects a decline in net income of the Ontario Lottery and Gaming Corporation (OLG) and the combined net income of Ontario Power Generation Inc. and Hydro One Inc. The projected increase over the medium term is primarily due to increases in net income of the Liquor Control Board of Ontario and OLG as a result of planned efficiency gains and additional measures proposed in the *2012 Budget*.

The forecast for **Other Non-Tax Revenue** is based on information provided by government ministries and provincial agencies. The decline in 2012–13 largely reflects a one-time gain in 2011–12, including Chrysler's repayment of an Ontario loan and higher-than-usual recoveries of prior-year expenditures from government ministries.

Medium-Term Revenue Changes Since the *2012 Budget*

TABLE 3.5 Summary of Medium-Term Revenue Changes Since the *Budget*

($ Billions)

Source of Change	2012–13	2013–14	2014–15
Higher 2011 Tax Base	0.4	0.3	0.4
Slower Economic Growth	0.0	(0.3)	(0.4)
Total Revenue Changes	**0.4**	**0.0**	**0.0**

Note: Numbers may not add due to rounding.

Processing of 2011 corporate and personal income tax returns during 2012, as well as finalizing other taxation revenue amounts for 2011–12, boost the tax base and the taxation revenue forecast in 2012–13 and over the medium term.

In 2013–14 and 2014–15, **slower economic growth** lowers taxation revenues, offsetting the revenue boost due to the higher 2011 tax base.

Medium-Term Expense Outlook

Total expense is projected to grow to $130.3 billion by 2014–15 — unchanged from the forecast included in the *2012 Budget*.

Program expense over the medium term is also consistent with the 2012 Budget Plan. These projections reflect the government's commitment to control growth in program expense while protecting gains made in health and education.

The interest on debt forecast over the medium term is on track with the projections outlined in the 2012 Budget Plan.

Medium-Term Fiscal Outlook

Even in the face of continued global economic uncertainty, Ontario's fiscal outlook remains on track, including steadily declining deficits of $14.4 billion in 2012–13, $12.8 billion in 2013–14 and $10.1 billion in 2014–15.

TABLE 3.6 Medium-Term Fiscal Plan and Outlook
($ Billions)

	Actual	Projected Outlook		
	2011–12	2012–13	2013–14	2014–15
Revenue	**109.8**	**113.0**	**116.6**	**121.6**
Expense				
Programs	112.7	115.8	117.0	117.9
Interest on Debt[1]	10.1	10.6	11.2	12.3
Total Expense	**122.7**	**126.4**	**128.2**	**130.3**
Reserve	–	1.0	1.2	1.5
Surplus/(Deficit)	**(13.0)**	**(14.4)**	**(12.8)**	**(10.1)**

[1] Interest on Debt expense is net of interest capitalized during construction of tangible capital assets of $0.2 billion in 2011–12, $0.2 billion in 2012–13, $0.4 billion in 2013–14, and $0.4 billion in 2014–15.

Note: Numbers may not add due to rounding.

The fiscal outlook continues to include a reserve of $1.0 billion in 2012–13, $1.2 billion in 2013–14 and $1.5 billion in 2014–15 to recognize both the continuing global economic uncertainty and the uncertain nature of longer-term revenue and expense projections. If the reserve is not needed by the end of the current fiscal year, the government will use this amount to further reduce the deficit in 2012–13.

Consistent with the 2012 Budget Plan, the government remains committed to managing growth in program spending. In fact, the fiscal action outlined in the *2012 Budget* means that for every additional dollar in new revenue measures, the plan includes four dollars of expense measures to close the fiscal gap that would emerge if no new action is taken to control growth in Provincial expense.

The projections for both medium-term program and total expense are unchanged from the 2012 Budget Plan — confirming that the government's plan remains on track.

Section D: Federal–Provincial Relations

During the recent global recession, the governments of Ontario and Canada worked together to protect Ontario families and their jobs. Building on this success, Ontario wants to do more with the federal government to benefit the Ontario and Canadian economies.

Opportunities to Disentangle Public Services

Ontario wants to work with the federal government to disentangle programs where policy areas are shared to remove duplication, save taxpayers money and provide better services to citizens.

Labour-Market Training

The federal government's support for training programs through a number of agreements, each with its own program and client eligibility requirements, limits Ontario's ability to realize the benefits of an efficient and effective integrated delivery approach. Ontario calls on the federal government to:

- renew the Labour Market Agreement that expires on March 31, 2014; and
- give the Province greater flexibility to design and deliver its employment and training programs to meet the evolving needs of workers, communities and businesses.

Immigration

Skilled newcomers are fundamental to Ontario's economic future. The federal government should work with the Province to strengthen Ontario's role in meeting its needs for skilled workers; reduce duplication; and enhance the effectiveness of settlement and integration services for immigrants.

On October 3, 2012, the government received the final report from Ontario's Expert Roundtable on Immigration, which will help inform Ontario's first immigration strategy.

As outlined in the *2012 Budget*, the Ontario government is committed to developing an immigration strategy that will focus on how immigration can best support the province's economic development and ensure Ontario immigrants succeed.

Correctional Services

Both Ontario and the federal government provide correctional services, with inmates serving sentences of less than two years in provincial correctional facilities. If responsibility for inmates serving more than six months were transferred to the federal government, inefficient and costly duplication of services would be reduced because only one level of government would need to provide rehabilitative services to offenders serving longer sentences. These inmates would also benefit from access to federal rehabilitation services — services important for keeping Ontario's communities safe.

Working Together to Build the Economy

Continued economic growth is important to every Canadian. In other provinces, the federal government supports the growth of the oil and gas industries and the energy sector with investments in technology developments such as carbon capture and storage and through loan guarantees. Ontario is proud of the work being done by Canadians in other provinces and territories to strengthen the national economy. Opportunities also exist in Ontario that merit federal investment.

Support for Clean Energy

Ontario has become a North American leader in clean energy with its commitment to replace coal-fired electricity generation with cleaner sources, the feed-in-tariff program and a variety of conservation programs. In its August 2012 report, *Canada's Emissions Trends*, the federal government recognized Ontario's important contributions to meeting Canada-wide greenhouse gas emission reduction targets under the Copenhagen Accord. However, the federal government must do more to support Ontario's efforts to build a clean energy system.

Ontario is seeking federal support and the appropriate regulatory environment for an east-west transmission grid that would transmit electricity across provincial borders. Greater regional integration of electricity grids would encourage the development of new, larger-scale renewable projects that would benefit the economy, both in Ontario and elsewhere in the country.

Employment Insurance

For several years, the Ontario government has demonstrated that the federal Employment Insurance (EI) program is failing to meet the needs of the modern labour market and Ontario's unemployed workers. Although temporary federal EI measures were helpful during the recent recession, they have not addressed the longer-term issues with the EI program.

- The share of unemployed workers receiving EI regular benefits has fallen significantly in Ontario since 1990. In 2011, Ontario's coverage rate was 30.6 per cent, compared with an average coverage rate of 49.2 per cent in the other nine provinces.
- Ontario workers and employers contribute more to the EI program than they receive. In 2011, Ontario workers and employers paid an estimated 40 per cent of premiums, but received only 33 per cent of total income benefits. In 2011, Ontarians contributed about \$7.3 billion in EI premiums while receiving about \$6.0 billion in EI income benefits.

- As EI eligibility is a requirement for many EI-funded training services, low EI coverage means many of Ontario's unemployed lack access to training.

The federal government must improve the fairness and transparency of the EI system.

Agricultural Support

Agriculture is a shared federal–provincial responsibility in Canada. Through the recently renewed Growing Forward 2 Multilateral Agreement, the Ontario government receives federal support for 60 per cent of the cost of eligible programs. The Ontario Risk Management Program (RMP), however, is not part of this framework and the federal government does not contribute towards it. Despite continued requests for the federal government to provide its 60 per cent share of the RMP, the federal government has refused to contribute towards it.

The demand-driven farm income support programs are a source of financial risk to the Province as payments can be unpredictable. The Ministry of Agriculture, Food and Rural Affairs is working with farmers to reshape these programs, including the RMP, through a capped program structure to limit financial exposure and leverage federal dollars.

Infrastructure

The federal government has now concluded public consultations on the development of a long-term infrastructure plan for public infrastructure that will extend beyond the expiry of the Building Canada plan in 2014. The Ontario government participated in these consultations and released a submission outlining its principles and recommendations for the federal plan.

This year alone, the Province will invest almost $13 billion in Ontario infrastructure. That is roughly twice as much as the federal government will spend on infrastructure in the whole of Canada. The Province encourages greater federal investment in infrastructure in Ontario. Past experience has demonstrated the need for federal investment to be flexible enough to accommodate projects that support Ontario's greatest priorities.

These projects will help reduce bottlenecks to economic growth (such as congestion and commute times), will strengthen competitiveness and productivity, and will do so in a way that maximizes the benefits of provincial and federal government investments.

Working Together on a Solid Fiscal Foundation

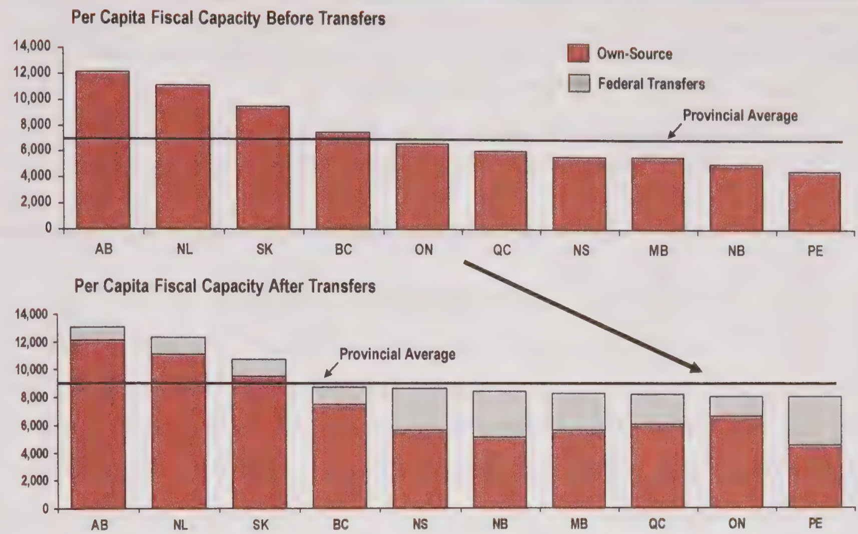
Fiscal Arrangements

Fiscal arrangements between the federal government and the provinces and territories provide important support for public services such as health care, postsecondary education and social services for people across Canada.

At its July 2012 meeting, the Council of the Federation directed a working group of provincial and territorial finance ministers to report on options to improve the federal transfers system. Ontario looks forward to considering the report of this group as a starting point for a national conversation on how to create a transparent, fair and reliable transfers system that will support the ability of all governments to deliver quality public services into the future.

Unfortunately, current federal–provincial fiscal arrangements put Ontario at a disadvantage. Ontario is fifth among provinces in ability to raise revenues in 2012–13 but falls to ninth after federal transfers are included.

CHART 3.2 Ontario's Fiscal Capacity Is Fifth in 2012–13 but Federal Transfers Drop Ontario to Ninth



Notes: Calculation of fiscal capacity for the 2012–13 entitlement year for the purposes of Equalization. The revenue data are a weighted average of the 2008–09, 2009–10 and 2010–11 fiscal years, using 2012–13 population figures to determine per capita values. Calculated using 100 per cent natural resource revenue inclusion. Transfers include 2012–13 entitlements for the Canada Health Transfer, Canada Social Transfer, Equalization, Offshore Accords and Protection Payments.

Source: Ontario Ministry of Finance calculations based on data from Finance Canada.

"Even though Ontario receives Equalization, Ontarians continue to contribute more to the program than they receive in return. This highlights a problem with the arrangements in the federation — federal transfers disproportionately benefit other provinces, at a cost to Ontarians. For instance, Ontario is fifth among provinces in ability to raise revenues, but falls to near last after federal transfers are included — above only Prince Edward Island."

Commission on the Reform of Ontario's Public Services, Public Services for Ontarians: A Path to Sustainability and Excellence, *2012.*

Ontario is a net contributor to the Equalization program. In 2012–13, Ontarians will contribute approximately $6 billion to the Equalization program while Ontario will receive approximately $3.3 billion in return. Ontarians' net contribution to the program — $2.7 billion that could support vital public services here in Ontario — is redistributed to other regions of Canada to subsidize programs and services there that Ontarians themselves may not enjoy.

CHART 3.3 **Net Contribution to Equalization (2012–13)**

Net contribution represents Equalization payments received less taxpayer contributions through federal revenue.
Source: Ontario Ministry of Finance.

Although Ontario is committed to the principles of the Equalization program, it will not support a system of transfers that puts Ontario's public services at risk and provides inequitable levels of support to different parts of Canada. The fiscal arrangements between the federal government and the provinces need to be modernized to reflect current economic circumstances and support vital public services.

Sufficient, Sustainable Federal Support

As Ontario moves forward with transforming the way public services are delivered, it looks to the federal government to support its efforts. The federal government should not undermine Ontario's plan to eliminate the deficit and protect health care and education.

Certain federal actions — such as those included in the *Safe Streets and Communities Act* — will increase costs for the Province and limit Ontario's ability to provide the public services on which its residents rely. Ontario calls on the federal government to provide additional funding to fully address any provincial costs that may result from federal policy changes, including changes to the criminal justice system.

Furthermore, when the federal government provides time-limited support for provincial programs, it can leave provinces with significant ongoing financial pressures and negatively affect citizens who have come to rely on these key services. Two recent examples of this kind of funding are the Police Officers Recruitment Fund, which will expire on March 31, 2013, and support for the reduction of health care wait times, which will expire on March 31, 2014.

The Province cannot step in every time the federal government decides to cut funding. Therefore it calls on the federal government to ensure that it provides adequate and sustainable support for the delivery of essential provincial services on which Ontarians rely.

Federal Old Age Security

In its 2012 budget, the federal government increased the entitlement age by two years for all benefit programs in the federal Old Age Security (OAS) system. This change will have significant cost impacts on Ontario's social programs, including social assistance, starting in 2023. The federal government has indicated that it will compensate provinces and territories for net additional costs incurred as a result of this change. Ontario expects the federal government to honour this commitment when the time comes.

Strengthening Canada's Retirement Income System

Ontario is committed to improving the retirement income system. This cannot be accomplished without the federal government being a true partner in the process. Ontario would prefer a two-track strategy: a modest, fully funded enhancement to the Canada Pension Plan (CPP), supplemented by pension innovation to expand retirement plan coverage and encourage lower-cost savings options.

Canada Pension Plan

Ontario will continue to collaborate with the federal government and other provinces to develop a modest, phased-in and fully funded enhancement to the CPP to help ensure adequate and predictable earnings replacement for future retirees. This change is the core element of a strategy to strengthen the national retirement income system.

Pooled Registered Pension Plans

Pooled registered pension plans (PRPPs) are intended to make it easier to save for retirement by providing employees and the self-employed with a new type of simple, low-cost savings vehicle that is professionally managed and portable.

On June 28, 2012, the federal government passed the *Pooled Registered Pension Plans Act* as a first step in setting out the legislative framework for PRPPs that applies to federally regulated industries and employment in the territories. Ontario has a number of concerns with the federal model as currently proposed.

Provincial legislation is required to implement PRPPs in Ontario and other provinces. Ontario will continue to work collaboratively with other provinces and the federal government to develop this model. However, Ontario believes the implementation of pension innovation should be tied to CPP enhancement as part of a comprehensive approach.

Section E: Details of Ontario's Finances

This section provides information on the Province's current fiscal outlook, historical financial performance and key fiscal indicators.

TABLE 3.7 Medium-Term Fiscal Plan and Outlook
($ Billions)

	Actual	Projected Outlook		
	2011–12	2012–13	2013–14	2014–15
Revenue	**109.8**	**113.0**	**116.6**	**121.6**
Expense				
Programs	112.7	115.8	117.0	117.9
Interest on Debt[1]	10.1	10.6	11.2	12.3
Total Expense	**122.7**	**126.4**	**128.2**	**130.3**
Reserve	–	1.0	1.2	1.5
Surplus/(Deficit)	**(13.0)**	**(14.4)**	**(12.8)**	**(10.1)**
Net Debt	235.6	257.6	277.6	293.3
Accumulated Deficit	158.4	172.8	185.6	195.7

[1] Interest on Debt expense is net of interest capitalized during construction of tangible capital assets of $0.2 billion in 2011–12, $0.2 billion in 2012–13, $0.4 billion in 2013–14, and $0.4 billion in 2014–15.

Note: Numbers may not add due to rounding.

TABLE 3.8 Revenue
($ Millions)

	2009–10	2010–11	Actual 2011–12	Current Outlook 2012–13
Taxation Revenue				
Personal Income Tax	23,421	23,711	24,548	26,365
Sales Tax[1]	17,059	18,813	20,159	20,935
Corporations Tax	6,227	9,067	9,944	11,098
Education Property Tax[2]	5,506	5,659	5,765	5,631
Employer Health Tax	4,545	4,733	5,092	5,149
Ontario Health Premium	2,763	2,934	2,916	3,123
Gasoline Tax	2,336	2,358	2,380	2,371
Land Transfer Tax	1,015	1,247	1,432	1,399
Tobacco Tax	1,083	1,160	1,150	1,185
Fuel Tax	658	702	710	724
Beer and Wine Tax	–	397	561	557
Electricity Payments-In-Lieu of Taxes	516	321	367	555
Other Taxes	322	562	574	460
	65,451	**71,664**	**75,598**	**79,553**
Government of Canada				
Canada Health Transfer	9,791	10,184	10,705	11,378
Canada Social Transfer	4,204	4,330	4,469	4,596
Equalization	347	972	2,200	3,261
Infrastructure Programs	990	1,712	362	204
Labour Market Programs	1,253	1,201	904	912
Social Housing	498	493	489	476
Wait Times Reduction Fund	97	97	97	97
Other Federal Payments	1,440	4,052	2,079	867
	18,620	**23,041**	**21,305**	**21,791**
Government Business Enterprises				
Ontario Lottery and Gaming Corporation	1,924	1,956	1,882	1,737
Liquor Control Board of Ontario	1,440	1,562	1,659	1,673
Ontario Power Generation Inc./Hydro One Inc.	854	1,048	872	655
Other Government Enterprises	(23)	–	–	–
	4,195	**4,566**	**4,413**	**4,065**
Other Non-Tax Revenue				
Reimbursements	1,429	1,036	831	990
Vehicle and Driver Registration Fees	1,057	1,080	1,075	1,163
Electricity Debt Retirement Charge	907	944	952	946
Power Supply Contract Recoveries	1,409	1,288	1,372	1,262
Sales and Rentals	647	1,015	1,193	1,068
Other Fees and Licences	717	715	776	820
Net Reduction of Power Purchase Contract Liability	348	339	317	263
Royalties	228	145	200	203
Miscellaneous Other Non-Tax Revenue[3]	1,305	1,342	1,741	894
	8,047	**7,904**	**8,457**	**7,609**
Total Revenue	**96,313**	**107,175**	**109,773**	**113,019**

[1] Sales Tax in 2010–11 includes Retail Sales Tax (RST) and Harmonized Sales Tax (HST). The RST was replaced with a value-added tax and combined with the federal Goods and Services Tax to create a federally administered HST. Sales Tax revenue includes the Ontario Sales Tax Credit and the energy component of the Ontario Energy and Property Tax Credit.

[2] Education Property Tax revenue is net of the property tax credit component of the Ontario Energy and Property Tax Credit and the Ontario Senior Homeowners' Property Tax Grant.

[3] Miscellaneous Other Non-Tax Revenue in 2011–12 is higher than other years due to one-time revenues including Chrysler's repayment of an Ontario loan and higher-than-usual recoveries of prior-year expenditures from government ministries.

Note: Numbers may not add due to rounding.

TABLE 3.9 **Total Expense**
($ Millions)

Ministry Expense	2009–10	2010–11	Actual 2011–12	Current Outlook 2012–13
Aboriginal Affairs[1]	67	65	68	68.9
Agriculture, Food and Rural Affairs[1]	1,265	888	1,029	1,161.5
Attorney General[2]	1,606	1,589	1,699	1,730.6
Board of Internal Economy[3]	187	194	271	197.4
Children and Youth Services	3,590	3,883	3,949	4,087.4
Citizenship and Immigration[1]	101	106	111	119.9
Community and Social Services	8,411	8,933	9,361	9,791.1
Community Safety and Correctional Services[2]	2,137	2,218	2,174	2,313.4
Consumer Services	17	18	19	20.4
Economic Development and Innovation[1]	796	867	961	954.6
Education[1]	21,184	21,857	22,925	23,890.9
Energy[1]	469	724	498	362.1
Environment[1]	375	520	537	484.8
Executive Offices	34	32	31	31.4
Finance[1]	1,492	1,115	1,022	1,102.1
Francophone Affairs, Office of	5	5	5	5.1
Government Services[1]	929	973	1,051	1,005.1
Health and Long-Term Care	43,054	44,414	46,476	48,329.5
Infrastructure[1,2]	133	305	331	240.7
Labour[1]	179	187	185	191.5
Municipal Affairs and Housing[1]	874	885	828	819.4
Natural Resources[1]	685	705	699	686.6
Northern Development and Mines	534	706	729	771.1
Tourism, Culture and Sport[1]	950	1,086	1,181	1,108.0
Training, Colleges and Universities[1]	6,634	6,711	7,128	7,521.5
Transportation[1]	2,092	2,263	2,339	2,587.7
Interest on Debt[4]	8,719	9,480	10,082	10,601.0
Other Expense[1]	9,056	10,457	7,053	6,970.5
Year-End Savings[5]	–	–	–	(765.0)
Total Expense	**115,575**	**121,186**	**122,742**	**126,389.1**

1 Details on other ministry expense can be found in Table 3.10, Other Expense.
2 Reflects a realignment of expenditures associated with the government real estate portfolio.
3 The 2011–12 actuals include expenses for the 2011 general election.
4 Interest on debt is net of interest capitalized during construction of tangible capital assets of $234 million in 2011–12 and $248 million in 2012–13.
5 As in past years, the Year-End Savings provision reflects anticipated underspending that has historically arisen at year-end due to factors such as program efficiencies and changes in project start-ups and implementation plans.
Note: Numbers may not add due to rounding.

TABLE 3.10 Other Expense
($ Millions)

Ministry Expense	2009–10	2010–11	Actual 2011–12	Current Outlook 2012–13
Aboriginal Affairs				
One-Time Investments – Settlements	–	6	28	–
Agriculture, Food and Rural Affairs				
Time-Limited Investments in Infrastructure	618	1,496	247	–
Time-Limited Assistance	27	9	–	–
Citizenship and Immigration				
Time-Limited Investments to Support Pan/Parapan Am Games	3	16	59	319.6
Economic Development and Innovation				
One-Time Investments	5	–	–	–
Education				
Teachers' Pension Plan[1]	255	522	523	850.0
Energy				
Ontario Clean Energy Benefit	–	300	1,033	1,070.0
Environment				
One-Time Investments	37	–	–	–
Finance				
Harmonized Sales Tax Transitional Support	–	3,039	1,440	–
One-Time Automotive Sector Support[2]	3,022	–	–	–
Ontario Municipal Partnership Fund	781	684	598	592.2
Operating Contingency Fund	–	–	–	312.0
Pension Benefit Guarantee Fund	500	–	–	–
Power Supply Contract Costs	1,409	1,288	1,375	1,262.0
Transition Fund	–	–	–	500.0
Government Services				
Pension and Other Employee Future Benefits	949	1,182	1,300	1,545.0
Infrastructure				
Capital Contingency Fund	–	–	–	100.0
Labour				
Prevention Office	–	–	–	108.8
Municipal Affairs and Housing				
Time-Limited Investments in Social and Affordable Housing	585	668	59	155.2
Time-Limited Assistance	–	21	9	19.0
Natural Resources				
Emergency Forest Firefighting	68	100	209	136.7
Tourism, Culture and Sport				
Time-Limited Investments – Sport Program	48	288	37	–
One-Time Investments	–	22	3	–
Training, Colleges and Universities				
Time-Limited Investments	559	816	133	–
Transportation				
One-Time Transit and Infrastructure Investments	190	–	–	–
Total Other Expense	**9,056**	**10,457**	**7,053**	**6,970.5**

[1] Numbers reflect PSAB pension expense. Ontario's matching contributions to the plan grow from $1,245 million in 2009–10 to $1,459 million in 2012–13.

[2] Reflects the fiscal impact of Ontario's $4.6 billion in support to the automotive industry.

Note: Numbers may not add due to rounding.

TABLE 3.11 2012–13 Infrastructure Expenditures
($ Millions)

Sector	Total Infrastructure Expenditures 2011–12 Actual	2012–13 Current Outlook: Investment in Capital Assets[1]	2012–13 Current Outlook: Transfers and Other Infrastructure Expenditures[2]	2012–13 Current Outlook: Total Infrastructure Expenditures
Transportation				
Transit	2,300	2,121	422	2,543
Provincial Highways	1,746	2,398	–	2,398
Other Transportation[3]	708	681	131	812
Health				
Hospitals	2,787	2,798	127	2,925
Other Health	256	159	163	322
Education[4]	1,717	2,017	72	2,089
Postsecondary				
Colleges	457	204	–	204
Universities	194	–	112	112
Water/Environment	211	44	155	199
Municipal and Local Infrastructure	794	32	659	691
Justice	852	726	85	811
Other	663	506	287	792
Subtotal	**12,684**	**11,685**	**2,212**	**13,897**
Less: Other Partner Funding[5]	1,268	1,018	–	1,018
Total Excluding Partner Funding	**11,417**	**10,667**	**2,212**	**12,879**
Less: Other Capital Contributions[6]	438	160	175	335
Total Provincial Expenditure[7]	**10,979**	**10,507**	**2,037**	**12,544**

1 Investment in Capital Assets includes interest capitalized during construction of tangible capital assets of $248 million.
2 Mainly consists of transfers for capital purposes to municipalities and universities, and expenditures for capital repairs.
3 Other Transportation includes highway planning activities, property acquisition, highway service centres and other infrastructure programs (e.g., municipal/ local roads, remote airports).
4 Includes a one-time adjustment of $248 million in 2011–12 related to last year's capital grants that is fully offset by revenue recovery from the school board sector.
5 Third-party contributions to capital investment in consolidated schools, colleges, hospitals and provincial agencies.
6 Mostly federal government transfers for capital investments.
7 Total Provincial Infrastructure Expenditure includes Investment in Capital Assets of $9.5 billion for 2011–12.
Note: Numbers may not add due to rounding.

TABLE 3.12 **Ten-Year Review of Selected Financial and Economic Statistics[1]**

($ Millions)

	2003–04	2004–05	2005–06[2]
Financial Transactions			
Revenue	**74,549**	**84,192**	**90,738**
Expense			
Programs	70,428	76,379	81,421
Interest on Debt[4]	9,604	9,368	9,019
Total Expense	**80,032**	**85,747**	**90,440**
Reserve	–	–	–
Surplus/(Deficit)	**(5,483)**	**(1,555)**	**298**
Net Debt[5]	138,816	140,921	152,702
Accumulated Deficit	124,188	125,743	109,155
Gross Domestic Product (GDP) at Market Prices	493,081	516,106	537,383
Personal Income	381,127	400,994	419,457
Population — July (000s)	12,242	12,391	12,528
Net Debt per Capita (dollars)	11,339	11,373	12,188
Personal Income per Capita (dollars)	31,132	32,363	33,480
Interest on Debt as a per cent of Revenue	12.9	11.1	9.9
Net Debt as a per cent of GDP	28.2	27.3	28.4
Accumulated Deficit as a per cent of GDP	25.2	24.4	20.3

[1] Revenue and expense have been restated to reflect a fiscally neutral accounting change for the revised presentation of education property taxes, as described in the *2010 Ontario Budget*, a fiscally neutral accounting change related to the reclassification of government agencies and organizations as described in the *2011 Ontario Economic Outlook and Fiscal Review*, and a fiscally neutral reclassification of a number of tax expenditures as described in the *2012 Budget*.

[2] Starting in 2005–06, the Province's financial reporting was expanded to include hospitals, school boards and colleges. Total expense prior to 2005–06 has not been restated to reflect expanded reporting.

[3] Starting in 2009–10, investments in minor tangible capital assets owned by the Province were capitalized and amortized to expense. All capital assets owned by consolidated organizations are being accounted for in a similar manner.

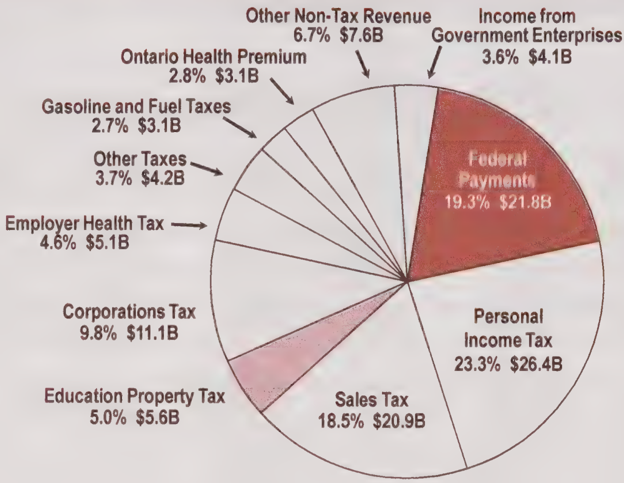
[4] Interest on Debt is net of interest capitalized during construction of tangible capital assets of $148 million in 2009–10, $203 million in 2010–11, $234 million in 2011–12, and $248 million in 2012–13.

[5] Starting in 2009–10, Net Debt includes the net debt of hospitals, school boards and colleges consistent with Public Sector Accounting Board standards. For comparative purposes, Net Debt has been restated from 2005–06 to 2008–09 to conform with this revised presentation. Net Debt has also been restated from 2003–04 to 2005–06 to reflect the value of hydro corridor lands transferred to the Province from Hydro One Inc.

Sources: Ontario Ministry of Finance and Statistics Canada.

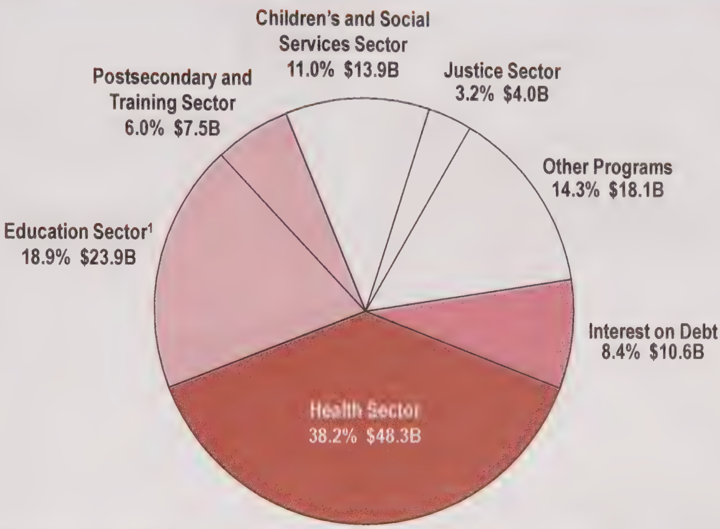
2006–07	2007–08	2008–09	2009–10[3]	2010–11	Actual 2011–12	Current Outlook 2012–13
97,120	**104,115**	**97,532**	**96,313**	**107,175**	**109,773**	**113,019**
86,020	94,601	95,375	106,856	111,706	112,660	115,788
8,831	8,914	8,566	8,719	9,480	10,082	10,601
94,851	**103,515**	**103,941**	**115,575**	**121,186**	**122,742**	**126,389**
–	–	–	–	–	–	1,000
2,269	**600**	**(6,409)**	**(19,262)**	**(14,011)**	**(12,969)**	**(14,371)**
153,742	156,616	169,585	193,589	214,511	235,582	257,627
106,776	105,617	113,238	130,957	144,573	158,410	172,781
560,576	583,946	587,055	581,635	612,494	638,842	659,288
442,736	466,051	479,217	480,061	500,048	515,336	529,348
12,665	12,791	12,932	13,069	13,224	13,366	13,506
12,139	12,244	13,113	14,813	16,222	17,625	19,075
34,956	36,430	37,050	36,722	37,803	38,536	39,116
9.1	8.6	8.8	9.1	8.8	9.2	9.4
27.4	26.8	28.9	33.3	35.0	36.9	39.1
19.0	18.1	19.3	22.5	23.6	24.8	26.2

CHART 3.4 Composition of Revenue, 2012–13



Note: Numbers may not add due to rounding.

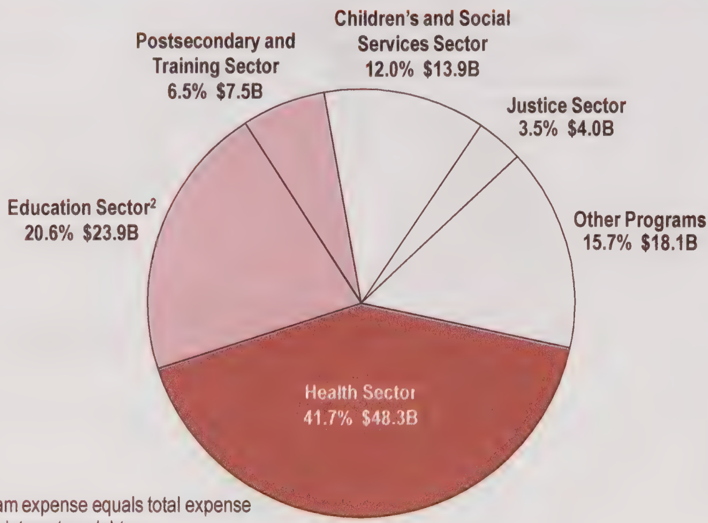
CHART 3.5 Composition of Total Expense, 2012–13



[1] Excludes Teachers' Pension Plan.

Note: Numbers may not add due to rounding.

CHART 3.6 Composition of Program Expense,[1] 2012–13



[1] Program expense equals total expense minus interest on debt.
[2] Excludes Teachers' Pension Plan.
Note: Numbers may not add due to rounding.

Chapter IV

Borrowing and Debt Management

Highlights

- ☑ The total long-term public borrowing requirement over the forecast period has been reduced by $2.1 billion compared to the *2012 Budget*, primarily because of the lower deficit recorded in the *2011–2012 Public Accounts of Ontario* and the lower-than-forecasted deficit for 2012–13.
- ☑ The forecast for long-term public borrowing for 2012–13 is $34.5 billion, down by $0.4 billion from the forecast in the *2012 Budget*.
- ☑ The interest on debt (IOD) expense for 2012–13, forecast at $10,601 million, is $18.0 million lower than in the *2012 Budget*.
- ☑ Total debt is projected to be $278.0 billion as at March 31, 2013.
- ☑ Net debt is projected to be $257.6 billion as at March 31, 2013. Accumulated deficit is projected to be $172.8 billion as at March 31, 2013. The difference of $84.8 billion between net debt and accumulated deficit is due to net investments in capital assets.

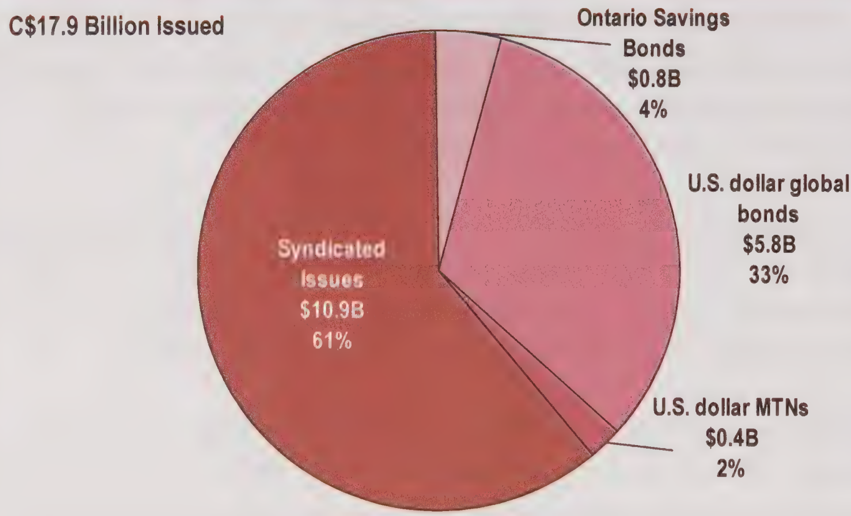
Long-Term Public Borrowing

The forecast long-term public borrowing requirement for 2012–13 is $34.5 billion, down by $0.4 billion from the forecast in the *2012 Budget*. As at September 30, 2012, $17.9 billion, or 52 per cent, of the long-term public borrowing requirement was completed. This figure includes Ontario Savings Bond sales of $0.8 billion.

The weighted-average term to maturity of long-term provincial debt issued so far in 2012–13 is 12.5 years, compared to 13.0 years for 2011–12 and 12.8 years for 2010–11. The IOD expense for 2012–13, forecast at $10,601 million, is $18.0 million lower than in the *2012 Budget*.

So far this year, Ontario has issued $11.7 billion, or 65 per cent, in the Canadian dollar market. The Province expects to end the year with at least 70 per cent of its borrowing in this market, as set out in the *2012 Budget*.

CHART 4.1 2012–13 Borrowing



Note: Numbers may not add due to rounding.
Source: Ontario Financing Authority.

Canadian dollar borrowing has been completed through:

- syndicated issues
- Ontario Savings Bonds.

International markets have remained an important source of funding for Ontario this year. About $6.2 billion, or 35 per cent, of borrowing has been completed through global bonds and medium-term floating rate notes (MTNs) in U.S. dollars.

TABLE 4.1 **2012–13 Borrowing Plan**
($ Billions)

	Budget Plan[1]	Current Outlook	In-Year Change
Deficit	14.8	14.4	(0.4)
Investment in Capital Assets	10.5	10.5	–
Non-Cash Adjustments	(3.8)	(3.8)	–
Net Loans/Investments	1.1	1.3	0.2
Debt Maturities	17.3	17.3	–
Debt Redemptions	0.3	0.3	–
Total Funding Requirement	**40.2**	**39.9**	**(0.3)**
Canada Pension Plan Borrowing	(0.8)	(0.8)	–
Decrease/(Increase) in Short-Term Borrowing	(3.0)	(3.0)	–
Increase/(Decrease) in Cash and Cash Equivalents	(0.3)	(2.2)	(1.9)
Maturity of 2011–12 Debt Buyback	(1.2)	(1.2)	–
Provision for 2012–13 Debt Buyback	–	1.7	1.7
Total Long-Term Public Borrowing Requirement	**34.9**	**34.5**	**(0.4)**

[1] Reflects the 2012 Budget Plan as outlined in the April 25, 2012 fiscal update.
Note: Numbers may not add due to rounding.

Long-term public borrowing in 2012–13 will be lower by the $0.4 billion reduction in the 2012–13 deficit forecast.

The lower deficit in 2011–12 resulted in the Province beginning 2012–13 with higher cash reserves than forecast at the time of the *2012 Budget*. These higher cash reserves will be used in 2012–13 to reduce the 2013–14 borrowing program by buying back debt maturing in that year.

The debt buyback will allow the Province to smooth the borrowing program over the next two years, while taking advantage of historically low interest rates and robust demand for Ontario long-term debt.

TABLE 4.2 Medium-Term Borrowing Outlook
($ Billions)

	2012–13	2013–14	2014–15
Deficit	14.4	12.8	10.1
Investment in Capital Assets	10.5	10.5	9.3
Non-Cash Adjustments	(3.8)	(4.0)	(3.6)
Net Loans/Investments	1.3	1.6	1.0
Debt Maturities	17.3	23.7	21.7
Debt Redemptions	0.3	0.3	0.3
Total Funding Requirement	**39.9**	**44.8**	**38.8**
Canada Pension Plan Borrowing	(0.8)	–	–
Decrease/(Increase) in Short-Term Borrowing	(3.0)	(3.0)	–
Increase/(Decrease) in Cash and Cash Equivalents	(2.2)	(0.7)	(0.7)
Maturity of 2011–12 Debt Buyback	(1.2)	(2.0)	–
Provision for 2012–13 Debt Buyback	1.7	(1.7)	–
Total Long-Term Public Borrowing	**34.5**	**37.4**	**38.1**

Note: Numbers may not add due to rounding.

The total long-term public borrowing requirement over the forecast period has been reduced by $2.1 billion compared to the *2012 Budget*, primarily because of the lower deficit recorded in the *2011–2012 Public Accounts of Ontario* and the lower-than-forecasted deficit for 2012–13.

Debt

Total debt, which represents all borrowing without offsetting financial assets, is projected to be $278.0 billion as at March 31, 2013, compared to $257.3 billion as at March 31, 2012.

Ontario's net debt is the difference between total liabilities and total financial assets. It is projected to be $257.6 billion as at March 31, 2013, compared to $259.8 billion forecast in the *2012 Budget*. Net debt was $235.6 billion as at March 31, 2012.

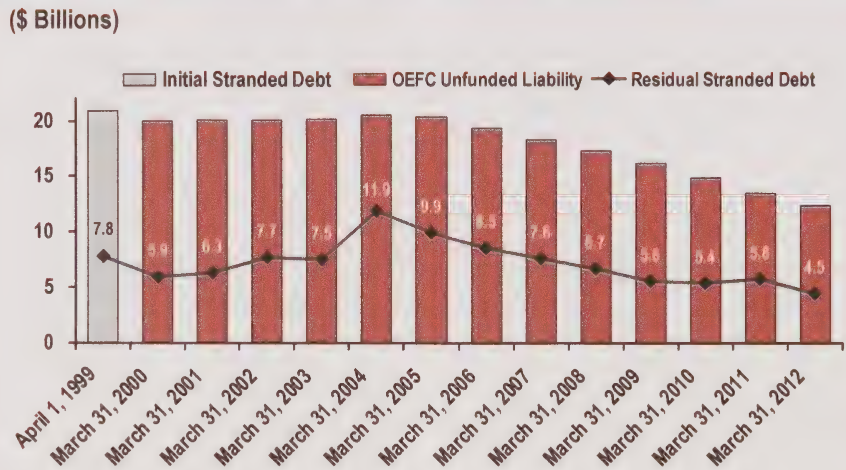
Accumulated deficit is projected to be $172.8 billion as at March 31, 2013. The projected difference of $84.8 billion between net debt and accumulated deficit is due to net investments in capital assets.

Residual Stranded Debt Update

The 2012 annual financial statements of the Ontario Electricity Financial Corporation (OEFC) showed revenue over expense of $1.1 billion, reducing the OEFC's unfunded liability (or "stranded debt of the electricity sector") from $13.4 billion as at March 31, 2011, to $12.3 billion as at March 31, 2012.

In accordance with Ontario Regulation 89/12, the Minister of Finance has determined the residual stranded debt to be $4.5 billion as at March 31, 2012. This is a decrease of about $1.3 billion compared to residual stranded debt of $5.8 billion as at March 31, 2011, and a decrease of about $7.4 billion from an estimated peak of residual stranded debt of $11.9 billion as at March 31, 2004.

CHART 4.2 Residual Stranded Debt Since April 1, 1999



Note: Unfunded Liability amounts are from OEFC Annual Reports from 1999–00 to 2011, and the Annual Financial Statements for 2012.

Sources: Residual Stranded Debt value for April 1, 1999, as announced on April 1, 1999. Values for the period from March 31, 2000, to March 31, 2010, as estimated by the Ministry of Finance in the *2012 Budget* and for March 31, 2011, and March 31, 2012, as determined by the Minister of Finance in accordance with a regulation made under the *Electricity Act, 1998*.

The residual stranded debt determination as at March 31, 2012, is based on a stranded debt amount of $12.3 billion, reduced by the estimated present value of future dedicated revenues to OEFC of $7.8 billion. This results in the calculated $4.5 billion of residual stranded debt as at March 31, 2012.

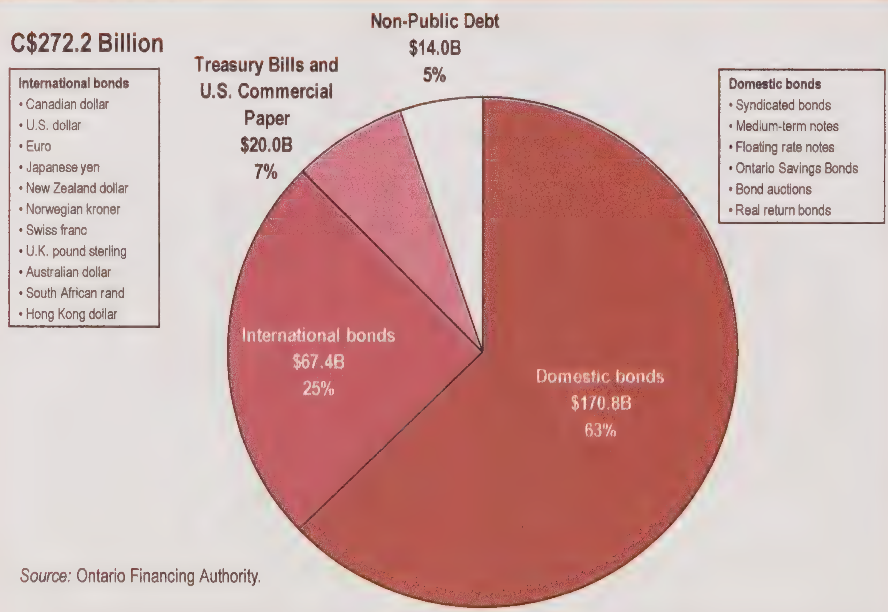
The *Electricity Act, 1998*, provides for the Debt Retirement Charge (DRC) to be paid by consumers until the residual stranded debt is retired. The estimate for when the residual stranded debt will likely be retired is between 2015 and 2018. The estimated timing for residual stranded debt retirement and the end of the DRC is provided as a range to reflect the uncertainty in forecasting future OEFC results and dedicated revenues to OEFC, which depend on the financial performance of Ontario Power Generation, Hydro One and municipal electric utilities, as well as other factors such as interest rates and electricity consumption.

Total Debt Composition

Total debt is composed of bonds issued in the public capital markets, non-public debt, treasury bills and U.S. commercial paper.

Ontario total debt is $272.2 billion as at September 30, 2012. Public debt totals $258.2 billion, primarily consisting of bonds issued in the long-term markets in Canadian dollars and internationally in U.S. dollars and nine other currencies. The Province also has $14.0 billion outstanding in non-public debt issued in Canadian dollars. Non-public debt mainly consists of debt instruments issued to public-sector pension funds in Ontario and the Canada Pension Plan Investment Board. This debt is not marketable and cannot be traded.

CHART 4.3 **Total Debt Composition as at September 30, 2012**



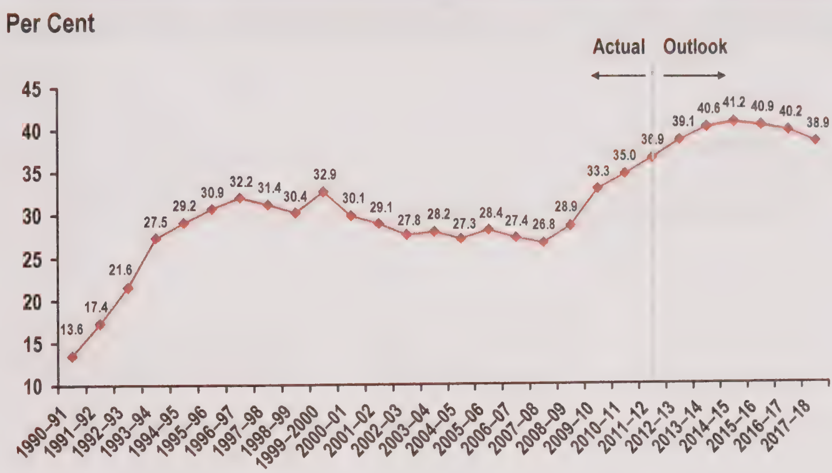
Source: Ontario Financing Authority.

Debt-to-GDP Ratios

The Province's debt-to-GDP ratios are expected to increase due to the projected deficits and investments in capital. The ratios will stabilize and begin to decline as the deficit is eliminated.

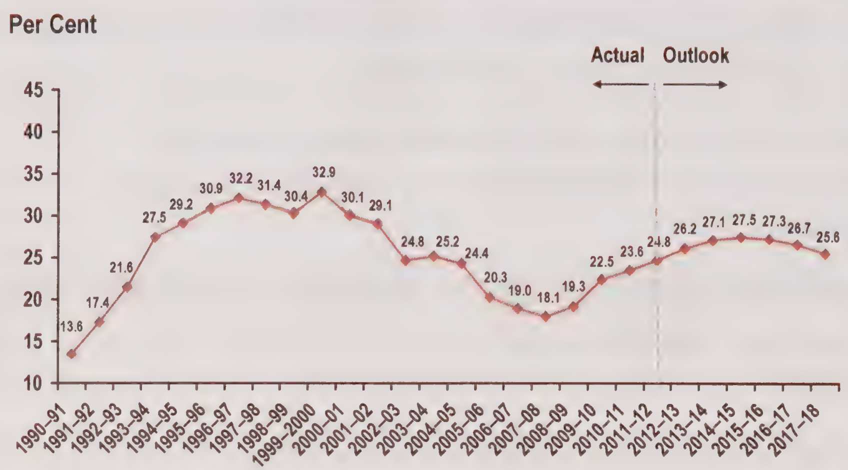
The net debt-to-GDP ratio is expected to peak in 2014–15 at 41.2 per cent, which is below the 41.3 per cent forecast in the *2012 Budget*.

CHART 4.4 Net Debt-to-GDP



Notes: Net Debt has been restated to include Broader Public Sector Net Debt, starting in 2005–06.
Source: Ontario Ministry of Finance.

CHART 4.5 Accumulated Deficit-to-GDP

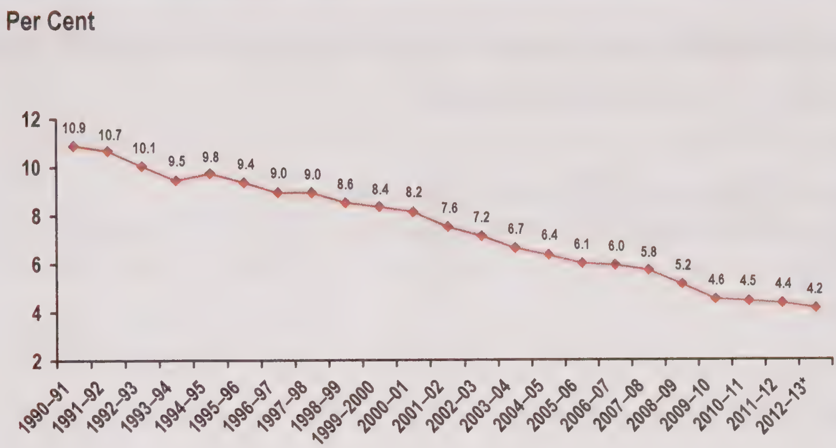


Source: Ontario Ministry of Finance.

Cost of Debt

The effective interest rate (on a weighted-average basis) on total debt was 4.19 per cent, as at September 30, 2012 (March 31, 2012, 4.35 per cent).

CHART 4.6 **Effective Interest Rate (Weighted Average) on Total Debt**

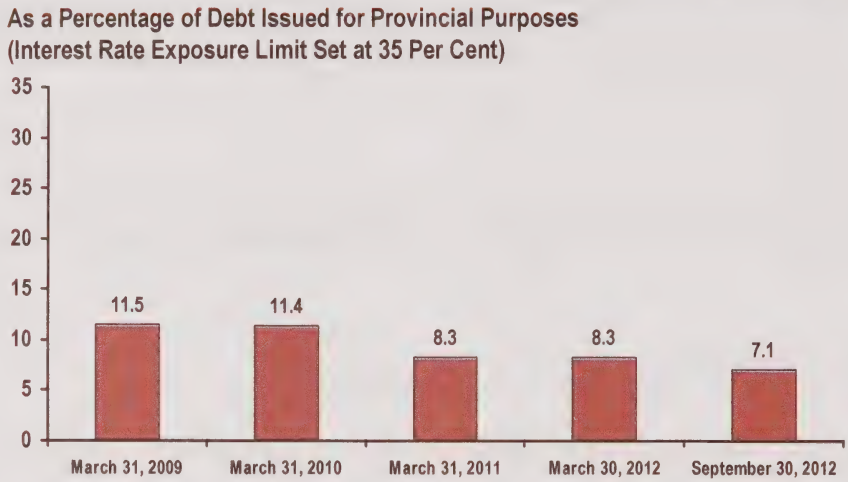


* As at September 30, 2012.
Sources: Public Accounts of Ontario (1991–2012) and Ontario Financing Authority.

Risk Exposure

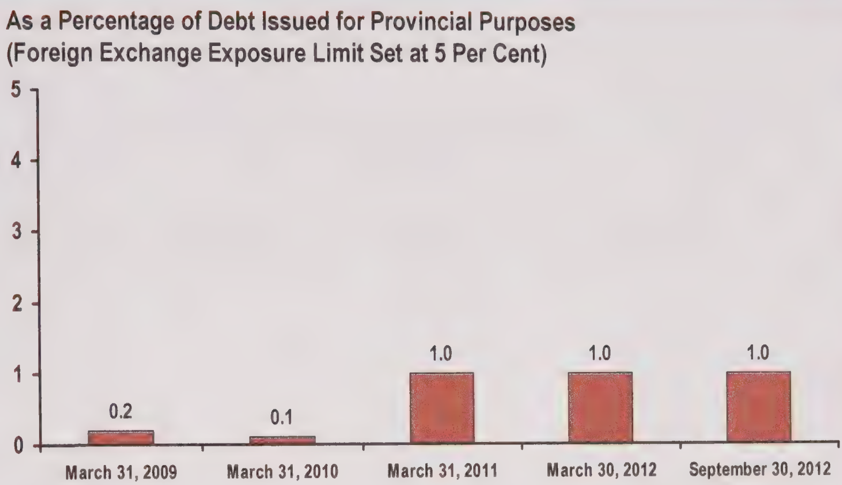
The Province limits itself to a maximum net interest rate resetting exposure of 35 per cent of debt issued for Provincial purposes and a maximum foreign exchange exposure of five per cent of debt issued for Provincial purposes. As at September 30, 2012, the net interest rate resetting exposure was 7.1 per cent and foreign exchange exposure was 1.0 per cent.

CHART 4.7 Interest Rate Exposure



Note: Excludes OEFC Debt.
Source: Ontario Financing Authority.

CHART 4.8 **Foreign Exchange Exposure**



Note: Excludes OEFC Debt.
Source: Ontario Financing Authority.

Chapter V

Pre-Budget Consultations

How to Participate in the 2013 Pre-Budget Consultations

The Minister of Finance will be hosting pre-budget consultations with people, organizations, associations and others as part of the McGuinty government's ongoing dialogue with the citizens of Ontario.

Through the use of modern technology, including virtual town halls, the Minister of Finance will reach a broader audience in communities throughout the province.

In particular, the Minister of Finance is interested in hearing Ontarians' views regarding what more the government can do to create jobs and improve services for people, while eliminating the deficit.

Below is information on how you can share your views and ideas for the upcoming *2013 Budget*.

Written Submissions

Individuals and organizations can mail, email or fax submissions directly to the Minister of Finance.

Mailing Address

The Honourable Dwight Duncan
Deputy Premier
Minister of Finance
c/o Budget Secretariat
Frost Building North, 3rd Floor
95 Grosvenor Street
Toronto, ON M7A 1Z1

Email Address

submissions@ontario.ca

Fax

416-325-0969

Online Submissions

Individuals can also submit ideas for the *2013 Budget* by completing a form on the Ministry of Finance website at www.fin.gov.on.ca. Click on the "Pre-Budget Consultations" item in the Ontario's Fiscal Cycle menu.

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ISSN 1483-5967 (PRINT) | ISSN 1496-2829 (PDF/HTML)